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MANUAL OF ACCOUNTING FOR POST EXCHANGE AND MORALE FUNDS

UNITED STATES MARINE CORPS

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MANUAL OF ACCOUNTING FOR POST EXCHANGE AND MORALE FUNDS

UNITED STATES MARINE CORPS

A short, concise manual of Bookkeeping and Accounting methods as applied to the handling and auditing of Post Exchange and Morale Funds in the United States Marine Corps.

US

Prepared by
The Marine Corps Institute
Marine Barracks, Washington, D. C.

Approved by the
MAJOR GENERAL COMMANDANT
June 19, 1930

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U. S. MARINE CORPS

MANUAL OF ACCOUNTING FOR POST EXCHANGE AND MORALE FUNDS

BUSINESS PAPERS

HISTORY OF BOOKKEEPING

In the transaction of business of any nature it is not only customary, but absolutely necessary to preserve some form of record of all transactions. History informs us that records of some nature were kept by ancient peoples. The desire to hand down to future generations certain information, which in the course of time would not be obliterated, prompted the preparation of a record that would stand unchanged through the years. A record is a written memorial, a testimony, a history of events. Records left by our ancestors have been a guide to future generations; thus we are presented with the knowledge gained by our predecessors. Knowledge of what has taken place in the past has been a guide to future achievement. The pitfalls and tribulations experienced by our ancestors are, by the use of records, brought to the attention of the present age, and by this means we are warned against taking a step that to others has meant disaster. We profit by the experience of others, and were it not for some manner of obtaining the knowledge gained by our predecessors we would be obliged to learn the same things they did from practically the same source. Instead of advancing we would remain in the same status from generation to generation. This written testimony to future generations is a record. The narrative record is indispensable in nearly all fields of knowledge. The use of records in business relationships eliminates the possibility of misunderstanding.

A record substitutes written directions for verbal instructions in the conduct of business. Written material can not be distorted and made to suit the desires of the opposition as can oral agreements, or directions.

As long as business remained in the primitive barter stage men felt no need of keeping a record of their trades; but as soon as the element of credit was introduced, it became necessary to have some record of the amounts due from customers. Historians state that the art of writing was developed for business purposes, so to enable men to make business records. Early records written on papyrus have been found in Babylon with records of business transactions written on the sides and edges.

PURCHASE ORDERS

It is advisable when we order merchandise or other material from someone outside the business to make the request in writing and retain a duplicate, so that there can be no misinterpretation placed on our wishes, and we can refer to a copy of the order for future information. It is necessary that this be done so far as our own records are concerned, and because the person or firm from whom we order the goods desires written instructions regarding the shipment.

A purchase order is a request for a vendor to supply the exchange with certain specified merchandise. It is, in effect, a letter, but it may be prepared in printed form with appropriate blank spaces so that the necessary information may be shown in the same manner on all orders. The information to be shown on a purchase order, whether it be a specially prepared form or a regular letter is: Date; purchase order number; name and address of vendor; terms; shipping instructions; date delivery is required; quantity and kind of material or merchandise wanted; price per unit to be paid; and signature of the purchasing officer. Some of the above information may be omitted, or other information included, but all necessary information concerning a certain purchase should be furnished by the purchase order. A suggested form for a purchase order is given, to be used in lieu of a letter if purchases are sufficient to warrant.

PURCHASE ORDER

Purchase Order No _____

Date _____

Vendor _____

Address _____

Please furnish us with the following, at the prices and on the terms and conditions named below:

Shipping instructions _____

_____

Terms _____ Date required _____

Quantity	Kind of material	Unit price	Total price

Requisition No. _____ Signed,

Account No. _____

Place order number on your invoice and all packages By _____

This form would be prepared in duplicate, as required in the Post Exchange Regulations; the original copy being sent to the vendor and the duplicate being retained for comparison with the invoice when it arrives.

In business practice, however, written orders are not always used. Frequently orders are given orally and are filled in accordance with such verbal instructions, no controversy arising. Verbal orders should be confirmed by a written order; the best practice is to issue written orders for merchandise and to retain a copy.

Pertinent articles in regards to ordering and purchasing are here quoted from the Post Exchange Regulations:

(12–9 (1).) Orders for merchandise or supplies of any kind for the exchange will be given in writing, signed by the exchange officer, and a duplicate kept on a permanent file. In case a telephonic order is necessary, a memorandum of such order, signed by the exchange officer, will be kept. In cases of emergency, when supplies are required and the exchange officer is not present or available, a written

order may be signed by an officer detailed for this purpose by the commanding officer. In no case shall orders, however small, be signed or given by an attendant.

(12–9 (3).) *Purchases limited.*—Supplies will be purchased only in sufficient quantities to meet the needs of the exchange for the immediate future. The amount carried will be governed by the proximity of adequate markets and the facilities for delivery to the exchange.

(12–9 (4).) Merchandise in exceptional quantities will not be procured except upon the recommendation of the exchange council, with the approval of the commanding officer.

(12–9 (5).) The quartermaster's department is authorized to sell to exchanges such articles of clothing, rations (including ice), forage, furniture, and fixtures as may be needed and can be spared from the stock on hand.

PURCHASE INVOICES

The usual procedure is for the shipper or seller to deliver the goods accompanied by an invoice or statement of the goods shipped. An invoice is an itemized statement of goods bought or sold, and should bear on its face all necessary information to identify the seller and the buyer of the goods. The buyer's address and the date of sale should be shown, together with the quantities, kinds, the prices of the goods and the terms of the sale, and any other additional information as to the method of shipment. This invoice is from the seller's viewpoint a sales invoice and from the buyer's viewpoint a purchase invoice. An invoice is composed by the vendor (seller) to suit his personal conveniences or tastes. No special form or size is used, therefore it can be readily seen that invoices vary greatly in appearance.

VERIFYING INVOICES

It is necessary that all merchandise ordered be received, and that, when received, it is in good condition and up to the standard of quality expected. Therefore a careful inspection of all invoices should be made. When goods are received the purchase invoice which the seller sends, whether with the shipment itself or in a separate letter to arrive on or before the shipment, is verified. This verification consists partially of comparison of the invoice with the original order to the seller, verifying vendor's extensions or unit prices of merchandise on the purchase invoice and proving the total cost price. The invoice is held until the arrival of the shipment; in case the invoice arrives ahead of the goods, then the merchandise is counted physically, and compared with the figures on the purchase invoice. As each item on the invoice is checked against the amount of goods actually received, the next item is taken up for verification. If the shipment is in accordance with the invoice and copy of the purchase order the person who checked the merchandise in will initial the invoice as correct.

ADJUSTING INVOICES

Errors often occur on shipments of incoming merchandise, and provision must be made for their adjustment or correction on the invoice before it can be approved. It is necessary for the invoices to be approved promptly, so that the proper steps toward setting up the liability to the vendor can be taken. If the correction of invoices is left to the vendor, delays result, and information as to the cost price of merchandise can not be secured promptly. The procedure in preparing an invoice for approval should therefore provide for the immediate correction of invoices by an authorized person in the exchange without awaiting action by the vendor. Errors in shipments of purchased merchandise may occur in any or all of the ways following.

1. The shipment may be short of the required quantity, in which case a corresponding deduction should be made on the invoice.

2. More than the quantity ordered may have been received. The exchange has the option of keeping the excess quantity and adding its value to the invoice, or returning the excess to the vendor, or of holding it subject to his order.

3. Material of a wrong quality or of a defective nature may have been received. If the material is rejected on inspection, it may be returned to the vendor and a corresponding deduction made from the invoice, or it may be retained subject to a price concession, or it may be held subject to the vendor's order.

4. If the transportation charges, according to the terms of the purchase order, were to have been prepaid and the shipment was made *without prepayment*, the freight paid by the exchange should be deducted from the cost of the invoice, and the receipted freight bill attached thereto as evidence of the correctness of the deduction.

MEMORANDA

When it is found that one or more of the above corrections is necessary proper notice should be sent to the vendor. This notice may take the form of a regular letter explaining the additions or deductions and the reasons for same, or in some large exchanges special forms may be used.

Debit memos.—In case of deductions from the seller's invoice a form called a debit memo may be made out. One form is given below. It must be recognized that any variation from this form may be made to suit particular conditions.

DEBIT MEMO

Date _____

Name _____

Address _____

We have this day debited your account with the following on your invoice of _____

Quantity	Kind of material	Per unit	Total

Reason: _____

Signed,

_____

By _____

Credit memo.—A credit memo is used to notify the vendor of any additions made to the invoice, such as occur when more than the quantity ordered and invoiced has been received and the exchange has decided to keep the excess. It is prepared in the same manner as the debit memo and the form used is substantially the same with the substitution of the word "credit" for the word "debit." A possible form for a credit memo is illustrated on page 5.

CREDIT MEMO

Date_____

Name_____

Address_____

We have this day credited your account with the following on your invoice of_____

_____

Quantity	Kind of material	Per unit	Total

Reasons:_____

_____

Signed,

_____

By_____

When the exchange purchases a large order of small items, such as razor blades, it is usually found that two or three extra packages will be included for "good measure." No action should be taken in this case, of course, since it is obviously the intention of the seller to give the additional packages as a bonus for the order. Where the overage is large, however, and an error has apparently been made the vendor should be notified.

RETURNED GOODS

If for any reason goods purchased prove unsatisfactory and are returned, a record of such return must be made. Usually a letter is sent to the vendor explaining the reason for the return and asking that the value of returned goods be deducted from the amount of the exchange's indebtedness. Upon receipt of the returned merchandise the vendor will issue a *credit memo* or *returned goods invoice* to show that the goods were received and that the proper deductions were made from the amount due from the exchange as shown by their books. These credit memos, as they are termed, are always of some distinctive color, frequently red, or pink, in order to distinguish them readily from the purchase invoices. It can be seen that a credit memo, or returned goods invoice, is directly opposite to the purchase invoice in so far as its use as a record is concerned. If everything is found in order and no changes are necessary or after the proper adjustments have been made, the invoice is stamped with a rubber stamp bearing the following information:

Invoice No_____
Invoice received_____
Goods received_____
Checked in_____
Entered S. R_____
Entered steward_____
Bookkeeper_____
Paid by check_____
Voucher No_____

The number of the invoice is filled in on the first line. This should present no problem since the number to be assigned to an invoice is the one immediately following that given the preceding invoice. If the invoice were the first one received in the current month the number would, of course, be 1.

The date the *invoice was received* should be entered in the second line, the initials of the person receiving the invoice may also be added.

The date the *goods were received* and the initials of the person receiving them should be placed on the third line.

When the goods are checked in and verified by the post exchange officer or his authorized assistant, the date should be recorded in the fourth line together with the initials of the person who is responsible for such checking.

When the invoice is entered on the steward's daily report, as will be explained later, the date should be entered on the fifth line.

The exchange officer enters on the sixth line the date on which he makes the entry in the steward's account, charging the steward with the merchandise. This entry will be explained in detail later.

The bookkeeper uses the seventh line to record the date the invoice is entered in his books. The initials of the bookkeeper may also be added to avoid confusion in case there be more than one bookkeeper.

When the payment is made by check the number and date of such check is recorded on the eighth line.

The number of the voucher representing payment of this invoice is recorded on the last line when the voucher is made out as subsequently explained.

The use of the above stamp serves to systematize the approval and recording of the invoice, and prevents errors. Certain variations from this procedure may be necessary, but the net effect should be substantially the same as above outlined.

DETECTING DUPLICATE INVOICES

As a copy of the purchase order is kept on file until the invoice arrives it is very easy to guard against duplication of invoices and hence a double payment to a creditor, even though the invoices do not read "duplicate." The purchase order, after comparison with the invoice, should be given some distinctive marking to indicate that the invoice has been checked. Then if a duplicate invoice should come in from a creditor, comparison with the purchase order would immediately bring to light the fact that it was a duplicate since the original had already been checked against the purchase order. This mark on the purchase order may take any form so long as its import is made clear. Determining whether or not the invoice is a duplicate should be done first, so as to avoid further checking work, if the invoice should happen to be a duplicate. Sometimes when goods have been ordered from out of town, invoices may be vouchered and passed for payment before the goods arrive, in order to save the discount, but in such cases precautions should be taken to check the receipt of the goods later.

DISCOUNT

There are two kinds of discounts that affect purchases by the exchange—(1) trade discount and (2) cash discount.

Trade discount.—The following quotation is taken from R. B. Kester's Accounting Theory and Practice: "A discount is a deduction from a listed or

named figure. The manufacturer or wholesaler in making up his catalogue for the trade usually enters his products at certain prices—called 'list prices'—which are not selling prices but only nominal amounts on which the actual sales prices are based. He offers buyers a deduction from list prices which is called 'trade discount.' The usual quotation of sales prices is at so many per cent below the list prices."

A trade discount is brought to the attention of the purchaser by a list of discounts allowable on the catalogue price sent out by the seller at such times as the prices of articles change. It can be seen that to print a new catalogue every time a price changed would be a great expense on the seller, while the lists of discounts are easily and cheaply prepared. This list shows at what price below the catalogue price the purchaser may expect to obtain the goods. For instance, a catalogue put out by the John Smith Trunk Co. would show the original price of a certain trunk at $100. If in the course of a month the company desired to reduce the price of that trunk, instead of printing and issuing a new catalogue, it could write a letter to all catalogue holders to the effect that a discount of 10 per cent may be taken on the catalogue price of trunk No. 14596. If price revisions were made on several articles all discounts would be listed and a copy sent to the catalogue holders. When the purchaser makes up his order he places the price as arrived at by deducting the trade discount from the catalogue price as the cost of the merchandise. The discount is not stated on the face of the purchase order, and usually no mention is made of it on the incoming invoice.

Trade discount may be quoted in a single discount or by means of a series of discounts, each discount being computed on the sum remaining after deducting the next preceding discount. Examples will illustrate the method of computation:

1. Goods listed at $100 are quoted at 20 per cent off. This is a single discount, and the selling price of the goods is $80.

2. Goods listed at $100 are quoted at 20 per cent and 20 per cent off. This does not mean that 40 per cent is deducted from the list price, but, according to the instructions above, the first 20 per cent discount is computed, leaving a net amount of $80 from which 20 per cent, the second discount, is deducted. Since the second discount is only $16 the total discount on the $100 order of goods is $36 ($20 plus $16). It can be seen that to add the discounts together would not produce the same amount of discounts as when each is computed on the net amount remaining after deducting the preceding discount. A tabulation of the computation will serve to fix more firmly this principle in mind:

$100 less 20 per cent equals $80.
$80 less 20 per cent equals $64, selling price.
$100 less $64 equals $36, discount.

3. Goods listed at $100 are quoted at 13 per cent, 17 per cent, and 25 per cent off. The discount series here contains three discounts but the computation in determining the selling price of merchandise is the same as explained in example 2:

$100 less 13 per cent equals $87.
$87 less 17 per cent equals $72.21.
$72.21 less 25 per cent equals $54.16, selling price.
$100 less $54.16 equals $45.84, discount.

Any number of discounts may be included in a series but if each discount is considered as an individual computation little difficulty will be experienced.

The reason for using this method for computing the selling price can be seen when it is realized that the first discount announced by the seller sets the selling price. Any subsequent announcement of trade discounts will be based on the last selling price and not on the original catalogue price.

Cash discount.—Practically among all merchants it is a common practice to bill goods to customers with settlement allowed on an optional basis. The goods may be billed "net," i. e., the full amount shown on the invoice must be paid. Since there is a relationship between the time allowed for payment and the amount to be paid, most concerns have an established term, at the end of which they expect full settlement of the account, but as an inducement for earlier payment they offer a reduction in the amount to be paid. This is stated usually as a certain per cent below the billed price, and is generally called "cash discount." The offer of a cash discount is indicated usually by a notation on the invoice to the effect that a smaller amount than called for on the face of the invoice will be accepted in full payment if made within a specified time. The reason for the seller making this allowance is that he needs the money for current operations and is willing to sacrifice a part of the total sum to obtain cash for immediate use. Usually the discount is stated as "2 per cent in 10 days," which means that if the full amount of the invoice is paid within 10 days, then 2 per cent may be deducted from the amount of the invoice. The seller agrees to accept the reduced amount in full payment, so that a great saving might accrue to an exchange that takes advantage of all such offers of cash discount. It may be stated in any way the seller sees fit, such as 3 per cent in 10 days, 2 per cent in 15 days, etc. The object of the discount privilege is to encourage the prompt payment of bills. The exchange naturally does not make the terms, nor dictate the prices; but it generally includes them on the purchase order whenever they are known lest there arise later a misunderstanding with the seller, due to a change in the prices having been made without the knowledge of the post exchange.

The discount period is computed from the date shown on the invoice and not the date of its receipt by the exchange.

The student must not get the impression that since the discount allowed by the seller does not have to be paid that it is not a part of the cost of the merchandise. The discount taken advantage of by the exchange is as much a part of the cost of the invoice as the amount of cash actually paid in settlement of the bill. The nature of this discount will be discussed later in the course, but for the present it must be borne in mind that it does not decrease the value of the merchandise received.

When the invoice has been verified and the extensions and footings checked the amount of cash discount allowable should be computed and entered in a conspicuous place on the invoice where it can be plainly seen. This will prove an aid in preparing vouchers.

COMPUTING SELLING PRICE

After the proper person initials the invoice, certifying that the goods were received and that the invoice is in order, the price at which the goods are to be sold by the exchange will be entered on the invoice. This price will be set by the exchange officer and entered in his own handwriting on the face of the invoice.

The usual manner of arriving at the selling price of merchandise is to add about 10 per cent to the cost. However, variation from this procedure is necessary to suit particular conditions.

It is the usual policy to sell necessities at a small margin of profit and to make up the deficiency on items that are considered luxuries. For instance, candy purchased at $0.03½ per bar would be sold at $0.05; in this case a great deal more than 10 per cent is realized on the sale; but a toothbrush which cost the exchange $0.35 might be sold for $0.36, very little profit being realized. No rule of thumb can be laid down for computing the selling price of merchandise. The judgment of the exchange officer must be called into play in setting a selling price that will be fair to the exchange and reasonable to its patrons.

When the selling price is determined for each individual item on the invoice, the total selling price of that class of merchandise is computed by multiplying the number of units by the selling price. Each class of goods on the invoice is priced in this manner and the total selling price of the goods represented by the invoice will be entered in a conspicuous place with the initials "S. P." or other distinguishing feature to identify it from the cost price.

FILING INVOICES

If the invoices are small it is advisable, to facilitate filing, to paste them on a standard size sheet of paper. The invoices are numbered consecutively and may be filed in a temporary file until paid and then removed to a permanent file. Or the invoices may be permanently filed as soon as they are received. Conforming to post exchange regulations the invoices must be numbered serially, by months. That is, the first invoice coming in after the 1st day of the month should be numbered 1, the next 2, etc. A new series of numbers is begun on the 1st day of every month. For the purpose of convenience in reference it is best to keep each month's invoices separated. This avoids bulkiness and since previous months' invoices will be referred to infrequently it is best to file them away where the current month's accumulations will not be affected by them. Sometimes invoices for merchandise, expense items, and property purchases are kept separate, but this does not seem warranted, as no definite advantages accrue therefrom.

VOUCHERS

It was explained in a preceding section that an invoice is a record showing goods purchased. A voucher is likewise a record but of a different nature. A voucher, from an accounting viewpoint, is any paper or document which authoritatively supports an entry in any book of the post exchange. Emphasis is laid upon the word authoritatively. Some one with authority to approve the paper or document as the basis of the entry in the books must do so before the paper or document becomes, in the true meaning of the word, a voucher.

THREE PRINCIPAL KINDS OF VOUCHERS

The three principal kinds of vouchers are check vouchers, cash vouchers, and miscellaneous vouchers.

Check vouchers.—Check vouchers are supported largely by purchase invoices which have been checked against the goods actually received and have been approved for payment. These vouchers, with the supporting invoices, are the

authority for the issuance of a check. A voucher is written up showing the number and the amount of purchase invoices for which the voucher is drawn, the discount taken, if any, name of the vendor company, address of vendor, and number of voucher. Any variation from the foregoing information may be made so long as the invoices for which payment is authorized are described beyond doubt, and the voucher is properly identified for the purpose of future references.

An approval is based largely on evidence that the invoice has been properly checked, as revealed by the signature or initials in the spaces supplied by the rubber stamp on the invoice. In this case the initials on the invoice would be those of the post exchange officer or his authorized assistant, since he personally checks every invoice upon receipt of the goods. There should be a uniform sized voucher form. Before the voucher is prepared it must be recognized that the supporting papers, such as purchase invoices, recommendations for survey, and orders for cash payments must be approved as to genuineness and accuracy.

Voucher checks.—Some exchanges employ a very convenient system known as the voucher check system. The voucher and the check are combined in one form known as a voucher check. A form of voucher check is shown below:

[Indorse here]

[Fold here]

Voucher No. 46

Check No. 46

FIRST NATIONAL BANK

NEW YORK, *November 21, 1929.*

Pay to the order of *John Jones* *$46.51*

Forty-six and 51/100 Dollars

In full settlement of the invoices indicated on the back hereof.

POST EXCHANGE, Quantico, Va.

By *John Doe,*

Post Exchange Officer.

[Face of voucher check]

Voucher No. 46

Due date, *Nov. 14, 1929.*

IN ACCOUNT WITH

Liggett Meyers Tobacco Co., Washington, D. C.

Date of invoice	Amount	Discount	Net	Account chargeable
November 6, 1929	*$47.46*	*2%—$0.95*	*$46.51*	*Merchandise*

(Other invoices, if any, to be listed here)

Total	*$47.46*	*$0.95*	*$46.51*

John Doe,

Bookkeeper.

[Back of voucher check]

This form should be made out in duplicate and all supporting papers attached to the duplicate. The original is sent to the vendor. When John Jones received the check for $46.51 he could turn to the reverse side and see exactly how the post exchange computed the amount of the check. Information of this nature would be indispensable to John Jones. The specific invoices paid by the check are indicated so there can be no misunderstanding as to what the check covers. The indorsement of the check by John Jones in the space provided at the top of the face would constitute acceptance of the correctness of the payment and the receipt for the particular invoices covered by the voucher, which would be received in due course from the bank when the bank returned the paid checks. The above form may be amplified to suit individual requirements of the various exchanges. When the voucher check is used it is unnecessary to prepare any other form of voucher to substantiate payment of an invoice. Memorandum notations are prepared in support of entries affecting merchandise, property, etc., in cases where changes are necessary in the amount of one of these items other than by payment therefor.

Cash vouchers.—Cash vouchers are vouchers in support of cash disbursements other than those represented by the check vouchers, such as payment for merchandise or expenses in cash from the cash register, instead of by check. The post exchange regulations require that all payments be made by check if practicable, but in some cases small disbursements must be made from the cash drawer and these should be supported by proper vouchers. The following is a typical form for cash vouchers:

PETTY CASH RECEIPT

No. _____

Date _____

Received this date the sum of $ _____

for _____

from post exchange _____
[place]

Approved: _____ (Signed) _____
Post exchange officer Payee

Everything involving the disbursement of cash should be vouchered in a uniform way. The voucher is usually written up by the post exchange steward or an assistant and then the approval of the proper official must be obtained. This is usually accomplished by having the one in authority sign or possibly initial the voucher as "approved," which means primarily approved for payment, but implies approval in every respect. A receipt as shown in the above form should be made a part of each cash disbursement voucher.

MISCELLANEOUS VOUCHERS

Miscellaneous vouchers are vouchers in support of entries in the books other than for checks or cash payments. Surveys of merchandise from stock should not be made unless proper vouchers authorizing such survey were sanctioned by the post exchange council. Varying conditions in the several exchanges would give rise to a variety of miscellaneous vouchers the nature of which we will not attempt to explain. Suffice it to say that a voucher must be written up and O. K'd by the proper official before any change in the value of merchandise or other property of the post exchange can be made in so far as the book entries of the exchange are concerned. The object of this is to show to any person who has authority to investigate such change that it was made upon the order of the proper official, and such official will be held responsible therefor.

FILING VOUCHERS

After the voucher has been made out and entered in the books (which will be explained later in the course) it may be filed in an unpaid file by due dates. When they are paid they are filed serially according to months, as already explained for invoices. The vouchers should be permanently filed as soon as filled out. It is a good practice to make a carbon copy of each voucher. The original is sent to the vendor to be receipted and returned, and the carbon copy is retained in the files as authority for payment in case the vendor does not return the original voucher as requested. When the original voucher is returned by the vendor properly receipted it is substituted for the carbon in the permanent file.

BANK CHECKS

As we all know, surplus funds are maintained in a bank for safe-keeping.

Post exchange regulations (12–12 (3)) provides as follows:

Depositary.—When not impracticable, exchange funds, except such amounts as may be reasonably necessary for routine transactions, will be deposited in a Government depositary or, if one is not available, in a national bank.

Post exchange regulations (12–12 (6)) is quoted as follows:

Payments of bills by check.—The exchange officer will not permit the attendants to pay the obligations or bills of the exchange and will, whenever it is possible, make payments of such obligations or bills by check.

BANK PROCEDURE FOR HANDLING DEPOSITS

Opening an account with a bank means depositing funds with a bank subject to withdrawal by the depositor according to stipulations agreed upon. The bank has the use of the money as recompense for the clerical expense incurred in keeping its account with the depositor. As the bank is not expected to pay out any of the depositor's money except on the latter's signed order, it is necessary for it to have on file a sample of the depositor's signature for comparison, in case such comparison is needed to verify the genuineness of any order. For this reason the bank requires the depositor, as preliminary to the opening of a bank account, to write his name on a card, which is retained for the purpose mentioned. This card is known as *a signature card.* The depositor then makes out a deposit slip, showing the nature of the deposit. On this slip the depositor enters the amounts in gold, bills, silver, and checks that he wishes to deposit. The deposit slip then becomes the bank's record of such deposit and is kept for its own use. All subsequent deposits are made in a similar manner except that the signature card need not be made out after the account is opened.

CHECKING ACCOUNT

If a depositor has money in a bank against which he is permitted to draw checks, he is said to have a "checking account." A check is a draft on a depositary bank. It is an individual's order to his bank of deposit to pay a named or designated payee a certain sum of money. The checks used by the depositor for this purpose may be furnished by the bank, in blank, usually in a bound book, known as a check book. The form of the book may vary, but the usual business check book has sheets of checks three or four in one sheet, perforated so that individual checks may be torn out as used. It does not seem necessary to illustrate the form used for a check since practically everyone is familiar with this type of instrument.

CHECK STUBS

It is sometimes the practice to write a check in payment of a bill and fail to fill in the check stub. This should be discouraged since the check stub is a very valuable record. Sometimes a check is made out in a hurry and the drawee intends to fill in the stub from memory when he is not so hard pressed for time. This leads to inaccuracy because no matter how good the memory of any one individual is, he is apt to make a mistake in writing down the amount. This will cause great difficulty when an attempt is made to determine the balance of cash in the bank from the data contained on the check stubs. Other errors might be committed, such as writing in the wrong name of payee, putting down the wrong number, and entering an improper date. Any of these errors may be the cause of a great deal of trouble.

The check stub should contain a history of the check that was torn off. This usually consists of the name of the person to whom the check is payable, the number of the check, date issued, reason for giving the check, amount of money involved, and other data as to the balance of cash in the bank after deducting the last check.

CASH BALANCE IN BANK

It is very important that the amount of cash in the bank be shown on the check stubs. This is usually accomplished by having the stub show the balance carried forward after deducting the first check issued against the original deposit; to this figure is added any deposits since writing the last check; this gives the total amount in the bank from which is deducted the amount of each subsequent check; the remainder is the bank balance against which future checks may be issued. If this information is carried through from one check stub to the next, little difficulty will be experienced in determining the amount of cash in the bank at any time. This may also save the embarrassment of issuing a check, in error, for a larger amount than is on deposit, and of having the check returned on account of "insufficient funds." In case more than one check stub appears on a page, that is, if the checks are put up in sheets as before explained, only the pages may be balanced instead of each individual stub. This will save considerable labor on the part of the post exchange officer.

PASS BOOK

If the depositor wishes, he will be furnished with a pass book. This is a small memorandum book in which the receiving teller at the bank enters the amounts deposited. The depositor may at any time leave his pass book at the bank to be "balanced." A representative of the bank will then total the deposits, and deduct the amount of the withdrawals, as represented by the checks issued against the deposits, the difference will be the amount still on deposit to the credit of the exchange. The depositor's checks, signed orders on the bank, are returned with the pass book in support of the amount deducted as withdrawals. Checks so returned are known as "paid checks." They are also called "canceled checks," but the latter caption should be reserved for those canceled by the drawer before they are sent to the person for whom they were originally intended. Canceled checks should be pasted to the check stubs from which they were torn, as should all paid checks.

The one who signs the check is known as the drawer, the one in whose favor the check is drawn is the payee, the bank is called the drawee.

CERTIFIED CHECKS

A certified check is a check drawn by the depositor that has been certified by the bank's cashier as *good*. This certification is usually evidenced by stamping or writing on the face of the check these words: "Certified by First National Bank" or "Good when properly indorsed, First National Bank." Any certification to be binding on the bank must, of course, be signed by the cashier or other authorized official. The bank by certifying a check makes itself liable for payment and therefore the amount of the check is deducted from the depositor's balance. Having a check certified is therefore the same as drawing the money from the bank.

INDORSEMENTS OF CHECKS

The following quotation is taken from Child's work on Negotiable Instruments: "Indorsement is writing the signature of a person, called the indorser, on an instrument, with intention to transfer title thereto, or to add security, or to

accomplish both of these purposes." Indorsement is derived from two Latin words, *in dorso*, meaning "on the back" as that is where indorsements usually are placed; but an indorsement may also be made on the front of an instrument. "The proper place for an indorsement is across the back on the reverse of the left end of the front of the instrument." There are four kinds of indorsements, namely: Blank, full, qualified, and restrictive.

A blank indorsement makes the instrument *payable to bearer* as it consists of only the payee's signature.

A full indorsement is an indorsement placed on the instrument by the payee specifying *who the instrument is transferred to.*

A qualified indorsement transfers title with *no liability attaching to the indorser* in case the maker does not pay the instrument at maturity. This exemption from liability is accomplished by writing the words "without recourse" before the name of the indorser.

A restrictive indorsement is one stating *the object for which indorsed.* Checks may be transferred to someone with the condition that such transfer was made for "collection" or for "collection and deposit." This indorsement does not transfer title to the check, but merely appoints the indorsee the agent of the indorser.

STEWARDS' DAILY REPORT

This is a standardized form throughout the Marine Corps. Its object is to show the daily operations of the exchange from the standpoint of the steward as regards cash and merchandise. This record is made out at the end of each business day and represents an account or story of the transactions of the exchange. It is the steward's explanation to the exchange officer of what took place since the doors were open for the day.

Cash is, as we know, the most important element to be accounted for. The steward is authorized to maintain for current use a sufficient amount of cash to make change and meet other needs that particular conditions might require. The steward gives his receipt to the exchange officer for this amount and he is authorized to keep that amount at all times. In small exchanges $100 is the usual amount, but this fund might be more or less according to the size and needs of a particular exchange. The blank form for this report is shown on page 16. It practically explains itself but to avoid any ambiguity it will be discussed in detail.

THE POST EXCHANGE, MARINE BARRACKS

Steward's daily report of operations of the post exchange on ____ 193____

Cash:
Brought forward from last report (steward's receipt) ____ $
Received this date, sales of merchandise and other sources ____

Total cash ____
Turned in to the post exchange officer ____

Balance on hand (steward's receipt) ____

	Store	Lunch	Fountain	
Cash register reading				

Sales and services	Cash	Merchandise received at selling price	
		Invoice No.	
Amusement		Invoice No.	
Barber		Invoice No.	
Laundry		Invoice No.	
Lunch		Invoice No	
Merchandise		Invoice No.	
Shoemaker		Invoice No.	
Tailor		Invoice No.	
Fountain		Invoice No.	
Grand total		Total received	

Merchandise (selling price)
Brought forward from last report ____ $
Total received as per invoice numbers above ____

Total merchandise ____
Cash sales, merchandise ____ $
Expended as per approved list below ____
Other deduction for ____

Total deductions ____

Balance of merchandise on hand and carried forward ____

U. S. M. C., Post Exchange Steward.

The following transfers to amusements, expenditures, etc., are authorized and approved:

No.	Articles	Unit cost	Total	Unit sell	Total

Examined and approved.

Post Exchange Officer.

The cash with which the steward is charged is recorded on the proper line and the receipts from all sources are added thereto. From this total is deducted an amount sufficient to leave a remainder equal to the amount with which the steward is charged. The amount so deducted is the cash turned in to the exchange officer for deposit.

CASH TURNED IN BY STEWARD

The steward will turn in to the exchange officer the cash in excess of that authorized to be kept for change at the close of each calendar day's business, or at such other times approximating thereto as the commanding officer may designate. On days when unusual amounts are received, cash will be turned in to the exchange officer as many times as may be necessary in order to prevent a considerable accumulation in the hands of the attendants. At no time shall the total cash in the custody of the steward be allowed to exceed one-fourth the amount for which the steward is bonded.

The cash received from the various sources, as shown by the reading of the cash register, are entered on the proper line. Any additional sources of income not provided for on this line may be entered on the right.

A space is provided for sales and services. In this space will be entered all income from the exchange during the day, specifying the nature of such income. The total amount of this group of items is the support for the second figure on the statement, showing the total amount of the cash received.

The *selling price* of merchandise received during the day, that has been properly checked in, will be taken from the purchase invoice and entered in the space provided for that purpose. The number of the invoice as shown on the first line of the invoice stamp will be carried on this report to identify the goods reported as being received.

The next section of the report deals with the value of the merchandise with which the steward is charged by the exchange officer. On the first report in the month the inventory is entered on the line "brought forward from last report," to which is added the total shown in the "Merchandise received at selling price" section. On all subsequent daily reports the amount "Brought forward from last report" is the figure shown by the previous report as being on hand.

From the sum of the balance "Brought forward from last report" and the "Total received as per invoice numbers above" is subtracted the cash sales or merchandise, merchandise expended, and "Other deductions" to arrive at the *balance of merchandise on hand and carried forward* to the next report.

Any deductions from merchandise on account of donations, etc., are explained in the place provided for this purpose.

The above form has been found inadequate in some of the larger exchanges and some variations in style were necessary. However, the fundamental principles are not changed.

THEORY OF DEBIT AND CREDIT

Our present extensive system of bookkeeping is an outgrowth of the ancient practice of maintaining a record divided into two sides, so that amounts due from debtors could be posted on one side and collections on the other. A separate sheet was maintained for each debtor for the purpose of easy reference. Only the amounts due from outsiders were recorded originally. When a sale was made on credit, that is, when a purchaser was allowed to take merchandise home without paying for it at the time but with the understanding that he would settle later, the logical position to enter the amount receivable from the *buyer* was on the *left* side of the page, since one always begins to write there. It is recognized, of course, that the sale must be made before any collections are received. *Collections* when made were entered on the *right* side of the record.

When business men realized the importance of keeping a record with those to whom they owed money as well as those from whom they expected to receive money, it was only natural that the same type of record should be kept in use. As it was necessary to distinguish between those owing money, or debtors, and those to whom money was owed, or creditors, the simple expedient was adopted of changing sides; that is, recording *purchases*, on the *right* side of the creditor's record and entering payments on the left side. In this manner debtors' and creditors' records could be distinguished, because all those having a *greater amount on the left side* were *debtors' records*, and all those with *balances on the right side* were *creditor's records*. And thus, the *left side* became known as the *debit* or "he owes" side, while the *right side* became known as the *credit* or "he trusts" side.

Thus began our present system of debits and credits. These records were an account of all transactions with persons and in time they came to be known as *customers'* and *creditors'* accounts. The *balance* of an account is the *excess* of the *debits* over the *credits*, or vice versa. If the *debits exceed* the *credits*, the excess is called a *debit balance;* conversely, if the *credits exceed* the *debits*, the balance is called a *credit balance*. Entries on the *left side* of an account are known as *debits*, and entries on the *right side* of an account are known as *credits*.

This system of keeping records was known as the single entry system since only one entry was made to record a certain transaction. Entries were made as follows:

When goods were *sold to a customer* his account was *debited.*

When *payments were made by the customer* his account was *credited.*

When *goods were purchased* for the business the vendor's account was *credited.*

When *payments were made to the vendor* his account was *debited.*

In the early stages of bookkeeping only personal accounts were kept as above discussed, but it became necessary as business developed and bigger organizations came into being, to keep more detailed records of the business activities.

Therefore, a record is kept of everything of money value which the business owns that is applicable or subject to the payment of debts.

All such things that can be applied immediately or at some future time against liquidation of obligations, are known as *resources*, or *assets*. Usually cash is the only form of asset that can be applied immediately to the payment of debts, while merchandise on hand when sold and the money received therefrom can be used to pay debts. Amounts receivable from customers is also an asset even though intangible at the present time, since these amounts when collected may be used to pay obligations at some future date. Some assets are not intended to be used to pay debts, it is true, but if they are of a nature that they can be realized upon and applied against business obligations, they are assets in every sense of the word.

Assets may take the following form: Cash; accounts receivable; office furniture, fixtures, and equipment; merchandise, and other property.

Since the practice had already been adopted of entering amounts due from customers on the *debit side* of the account, it was only natural that all other assets should be recorded in the same manner; that is, as debits. Therefore, the student should always remember that *asset accounts have debit balances*, such debit balance representing the cost of the assets owned by the business. Just as an account was opened with each person from whom money was due, an account is opened with each class of assets. Each separate asset is not recorded in an individual account, but they are grouped according to their general nature. For instance, all furniture such as desks, chairs, tables, and similar property may be grouped into one account called furniture. Merchandise on hand consisting of hundreds of different items of individual nature would be included in one account captioned merchandise.

The amounts owed *to outsiders* for which the business is liable for payment comes under the caption of *liabilities*.

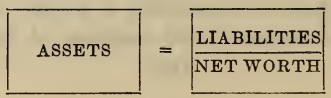
Therefore if all assets are properly recorded and all liabilities shown, the *excess of assets over liabilities* will constitute the *net value* of the business. This is on the assumption that the liabilities must all be paid out of the assets and any remainder belongs to the owner of the business against which no person has a claim.

The net worth as above arrived at was not shown under the early systems of bookkeeping, but business men soon began to seek some means of exhibiting their net worth on a record so that at any time they wished to know just what they were worth it would not be necessary to total all assets and deduct all liabilities. They devised the scheme of recording the net worth in the same manner as the liabilities since they reasoned that the *business*, considering it separate and distinct from its owner, owes this amount to the one who invested his money in the undertaking.

The bookkeeping equation then became: Assets − liabilities = net worth, or assets = liabilities + net worth.

It can be seen that the assets are at any time always equal to the net worth and liabilities.

A graph will serve to show this relation more clearly:



If the business has no liabilities all of the assets constitute net worth and the equation would appear as follows: Assets=net worth.

Assets may be decreased by, (1) payments of liabilities, (2) losses from operations, (3) distribution of profits.

Assets may be increased by (1) donations of assets from outside sources, (2) profits realized from operations, (3) purchases from creditors, or loans from banks.

Increase and decrease of liabilities.—Liabilities are *increased* by assets furnished to the exchange for which the exchange has not made payment. Liabilities are *decreased* through payments made by the exchange.

Net worth may be increased by (1) profits realized from operations, (2) donations of assets from outside sources.

Net worth may be decreased by (1) losses suffered from operations, (2) distribution of profits.

The above statements may be summarized as follows:

Increase of assets—	*Increase*—
Due to gifts or donations	Net worth.
Due to profit from operations	Net worth.
Due to purchases or loans from creditors	Liabilities.
Decrease of assets—	*Decrease*—
Due to payments to creditors	Liabilities.
Due to losses from operations	Net worth.
Due to distribution of profits	Net worth.

Because of the balancing nature of the net worth element it constantly fluctuates with each change in the value of the assets if the liabilities remain constant. If the value of the assets remains constant and the liabilities change in value, a similar change in net worth is effected, *because the net worth of the exchange is determined by the difference between the assets and the liabilities.*

Assets paid to creditors in liquidation of liabilities does not effect net worth, since there is a corresponding reduction in both assets and liabilities. Likewise assets purchased from creditors does not affect net worth, since the liabilities are increased by the same amount as the assets, and the difference between the two is the same as before the transaction.

The original assets of the exchange may be secured by a loan from the Marine Corps fund, as provided in section 19 of chapter 12, Marine Corps Manual.

The amount borrowed from the Marine Corps fund becomes a *liability* of the exchange, and all debts contracted from other sources give rise to additional liabilities.

The bookkeeping equation then reads: Assets=liabilities.

At this stage the newly organized post exchange owes some party for all of the assets which it possesses.

If the Marine Corps fund loaned assets to the exchange in the amount of $5,000, a debit to assets and a credit to liabilities would be necessary and the bookkeeping equation would read:

DEBIT		CREDIT	
Assets	$5, 000	Liabilities	$5, 000

If profits were realized through operations we would debit assets with the gain, and the credit would be recorded as net worth. Assuming that profits were $5,000, the equation would then appear as follows:

DEBIT		CREDIT	
Assets	$10, 000	Liabilities	$5, 000
		Net worth	5, 000

If losses to the extent of $2,500 were suffered during the next month of operation, the equation showing the decrease of assets and net worth would appear as below:

DEBIT		CREDIT	
Assets	$7, 500	Liabilities	$5, 000
		Net worth	2, 500

A debit to net worth and a credit to assets accomplishes this result:

Now, if the post exchange returned $500 of the loan from the Marine Corps fund, the assets and liabilities would be reduced by a debit to liabilities and a credit to assets, and the books would reflect the following condition:

DEBIT		CREDIT	
Assets	$7, 000	Liabilities	$4, 500
		Net worth	2, 500

Suppose the exchange now felt that it could afford to distribute $500 of this profit for the amusement of the enlisted men of the command where the exchange is located. The distribution of the asset would involve a credit thereto, and since the net worth is reduced we must debit it. The condition of the exchange would then be:

DEBIT		CREDIT	
Assets	$6, 500	Liabilities	$4, 500
		Net worth	2, 000

It will be seen from the illustrations given that the equation is always in balance; that is, the debits always equal the credits. This is the *bookkeeping equation* and it must always be adhered to.

It has been stated that increases of assets, due to gifts or contributions to the exchange and profits, increase the net worth, and that distribution of profits in the form of assets and losses suffered decrease the net worth.

It can be seen that when assets are reduced or increased without changing the amount of the liabilities the result is a change in the total amount of net worth.

It would not be practicable to record in one account all the changes in net worth brought about by the operations of the exchange, since every time a loss is incurred or a gain realized a change in net worth is brought about.

There are four elements that effect the amount of net worth of an exchange: (1) Expense, (2) income, (3) distribution of profits, (4) gifts or donations.

Expenses are costs of conducting a business, and they are of two kinds: (1) Operating, (2) nonoperating.

Operating expenses consist of the ordinary expenses of operation, such as salaries to clerks, bookkeepers, etc., and cost of electric lights, telephone bills, gas, ordinary repairs on exchange property, and other miscellaneous costs of carrying on business.

Nonoperating expenses are all expenses incurred that are not incident to regular conduct of business, such as merchandise which is deemed unfit for sale and must be dropped from the inventory as a loss, uncollectible accounts receivable which must be forfeited, units of post exchange property no longer serviceable which must be replaced, and deductions for depreciation of property.

Since the net worth account normally has a credit balance, it is evident that to reduce the amount of net worth we must enter a debit therein. But if we debit the net worth account every time an expense is incurred it would not be long before our list of expenses would fill many record sheets. The net worth account would be bulky and unwieldy and its value as a record of the net worth of the business would be greatly reduced. A plan is employed whereby these many decreases in net worth would be kept out of the net worth account, and segregated in temporary accounts until such time as it is desired to know the new net worth as arrived at through operations. In lieu of the unclassified listing in the net worth account, the items of expense are entered in one or more separate accounts, which are supplements to the net worth account. Expenses may be classified and grouped into individual accounts according to their nature, or the effect they have on the business. The expense accounts to be opened depends, of course, upon the nature of the business, and the amount of information which it is desired to obtain from these temporary accounts. It is of much value to the interested parties to know just how much is being expended on certain phases of the business, and the only way in which this information can be obtained is by keeping an appropriate record of such expenditures. The manner in which the expenses effect the net worth might not be clear to the student at first, but later in the course the means by which these various expenses find their way into the net worth account will be explained in detail.

It must be borne in mind at all times that the expense accounts are merely *a supplement to the net worth account. They carry a debit balance since their purpose is to reduce the credit balance of net worth.* It was pointed out previously that asset accounts have debit balances and now we say that *expense* accounts also *have debit balances. These two classes of accounts have no relation to each other, but* the student may have some difficulty at first in making a clear distinction. If it is remembered that an asset account represents something of value which the business owns and that an expense account records an expenditure of assets, for which nothing tangible has been received in return, little difficulty will be encountered.

Expense accounts are called nominal accounts because they exist in name only. They are canceled when they have served their purpose and the results as shown therein will be incorporated in the net worth account. Accounts

representing assets, liabilities, and net worth are called real accounts. They are permanent accounts of the business. They are not closed out each month into a summary account.

INCOME

Since to *decrease* the amount of net worth of the exchange it is necessary to *debit an expense* account, which serves as an offset to the credit balance of the net worth account, it is conversely true that to *increase* the net worth it becomes necessary to *credit* some temporary account with the amount of the increase.

The objection to entering all expenses in net worth account is again met with in this case.

Increases in net worth are brought about through income from operations of the business.

The chief source of income to the post exchange is, of course, from sales of merchandise. The increase in net worth is brought about by the exchange of the asset, merchandise, for the asset, cash or its equivalent. If the cash received exceeds the cost of the merchandise to the post exchange, a profit is said to be realized, and the net worth is indirectly increased by the amount of this profit.

DISTRIBUTION OF PROFITS

For bookkeeping purposes distribution of profits is treated similar to expense. The net worth account represents accumulated profits of the exchange, and therefore, upon distribution of this profit, it becomes necessary to record a debit on the books. As in the case of expense, distribution of profits tends to decrease net worth.

GIFTS OR DONATIONS

Sometimes an exchange will receive a gift of an asset. Since no assets are parted with at the time of receiving such gifts, it is evident that an increase in net worth results. Consequently income of this nature must be recorded upon the books as a credit, since the effect is to increase the credit balance of the net worth account.

To further illustrate the application of the rule of debit and credit we will construct skeleton ledger accounts divided in the center to separate the debit side from the credit side. Transactions will be assumed and recorded in these accounts for the purpose of more firmly impressing upon the mind of the student the adoption of the foregoing rules of double entry bookkeeping.

Accounts representing the three sections of the bookkeeping equation, namely, assets, liabilities, and net worth, are shown. Remember that entries are made upon the books from the viewpoint of the business which maintains the bookkeeping system.

The following transactions are assumed:

(1) Borrowed from the Marine Corps fund, $1,000.
(2) Purchased from John Jones, on account, merchandise, $500.
(3) Paid salaries to attendants, $50.
(4) Repaid $100 to Marine Corps fund.
(5) Paid John Jones for merchandise purchased.
(6) Donated $100 cash for a smoker for the enlisted men.
(7) Sold merchandise for cash in the amount of $12.

(8) Purchased merchandise for cash $50.
(9) Red Cross presented the exchange with one pool table valued at $200.
(10) Donated cigarettes for Christmas dinner, amounting to $10.

ASSETS

(1)	Cash	$1,000	(3)	Cash (salaries)	$50
(2)	Merchandise	500	(4)	Cash (M. C. fund)	100
(7)	Cash	12	(5)	Cash (John Jones)	500
(8)	Merchandise	50	(6)	Cash (smoker)	100
(9)	Property (pool table)	200	(7)	Merchandise	12
			(8)	Cash	50
		1,762	(10)	Merchandise	10
					822

LIABILITIES

(4)	Marine Corps fund	$100	(1)	Marine Corps fund	$1,000
(5)	John Jones	500	(2)	John Jones	500

NET WORTH

(3)	Salaries of attendant	$50	(9)	Pool table	$200
(6)	Smoker	100			
(10)	Merchandise donated	10			

Note that all *increases of assets are debited* to the asset account and that all *decreases are credited.* The balance of assets on hand after the completion of these transactions is determined by totaling all the debits and credits of the account, which amount to $1,762 and $822, respectively. The *debits exceed the credits* by $940, so there is a debit balance. The balance of assets is represented by cash in the amount of $212 (receipts of $1,012 less payments of $800), merchandise in the amount of $528 ($550 purchased less $22 sold and donated), and property in the amount of $200.

The *increases* in *liabilities* are *credited* and the *decreases* are *debited.* The total liabilities of $1,500 less the liabilities paid, or $600, leaves a *credit balance* in this account of $900. This is represented by the amount still payable to the Marine Corps fund.

The net worth account showed a credit of $200 but this was subsequently reduced by expenses paid of $50 and distribution of profits in the amount of $110, leaving a *credit balance* of $40.

The bookkeeping equation after these transactions are taken into consideration shows:

DEBITS		CREDITS	
Assets	$940	Liabilities	$900
		Net worth	40
	940		940

The equation must always be kept in balance, and to do this, the net effect of the entries made on one side must be equal to the net effect of the entries made on the other. The above equation can be sectionalized so as to show each asset separately, likewise each liability may be separately shown, and the elements of net worth may be classified into the different items of expense and income that add to or decrease the amount of net worth.

For instance, as regards the asset account it may be broken up into the following accounts:

ASSETS

Cash

Debit		Credit	
From Marine Corps fund	$1,000	Salaries of attendants	$50
Sale of merchandise	12	Marine Corps fund	100
		John Jones	500
		Smoker	100
		Merchandise	50
	1,012		800

Debit balance, $212.

Merchandise

Debit		Credit	
Purchased	$500	Sold	$12
Purchased	50	Donated	10
	550		22

Debit balance, $528.

Property

Debit		Credit
Purchased	$200	

LIABILITIES

Marine Corps fund

Debit		Credit	
Paid on loan	$100	Amount of loan	$1,000

Credit balance of $900.

John Jones

Debit		Credit	
Paid on purchase	$500	Amount of purchase	$500

NET WORTH

Expenses

Debit		Credit
Salaries of attendants	$50	

Distribution of profits

Debit		Credit
Smoker	$100	
Cigarettes	10	

Income

Debit		Credit	
		Donation from Red Cross	$200

It can be seen that the latter method of showing the transactions is much better than the former. More detailed information is shown. The object of bookkeeping is to gather financial information which may be summarized and

set up in statement form for the purpose of showing the condition *as arrived at* through operations, and also to exhibit information relative to the *changes that have taken place in the amount of the net worth* since the beginning of the business period.

Under the detailed method just illustrated this information can be obtained. The *condition* as arrived at through operations is shown by the asset and liability accounts as follows:

Assets:		
Cash	$212	
Merchandise on hand	528	
Property on hand	200	
Total assets		$940
Liabilities:		
Marine Corps fund		900
Net worth		40

The above balances are taken from the accounts set up and it therefore becomes a very simple operation to prepare the statement shown above. We know that at the beginning of activities there were no assets and no liabilities, consequently there was no net worth. The above statement, presumably made at the end of the first month of operations, shows what was *accomplished* during the month.

We know that there is now a net worth of $40 because this condition is shown by the excess of assets over liabilities. We know that there was no net worth at the beginning of operation so, naturally, we are interested in knowing what elements contributed to the change.

The so-called nominal accounts maintained furnish us with all details relative to income and expense which have contributed to changes in net worth. A recapitulation of the nominal accounts produces the following information:

Income:		
Donation from Red Cross		$200
Expenses:		
Salaries of attendants	$50	
Profits distributed:		
Donation for smoker	$100	
Cigarettes donated	10	
Total profits distributed	110	
Total deductions from income		160
Net profit for month		40

The nominal accounts may be subdivided and classified to any desired extent respecting income and expenses of the business. Several classifications of income may be made if there are more than one form of income. Likewise expenses may be further classified to show more information respecting the causes that have contributed to a reduction in the amount of net worth. Remember that the classification of income and expense is determined solely by the desires of the bookkeeper as to the amount of information which he seeks to obtain from the financial records.

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GENERAL BOOKS

Up to this point we have not considered any of the entries that will be made upon the books of the post exchange to record the information furnished by the various business papers discussed in the first pamphlet. The method by which this information relative to the operations of the exchange will be analyzed, classified, and recorded upon the books of account will now be considered.

The books used in the post exchange consist of (1) the general ledger, (2) the cashbook journal, (3) the petty ledger, (4) the steward's account, (5) the exchange officer's blotter (or cash account).

The first three records are kept by the post exchange bookkeeper. In instances where an individual bookkeeper is not available the steward or post exchange officer may keep the books of the exchange. The latter two books must be kept by the post exchange officer or his authorized assistant in his own handwriting. *If the post exchange officer personally makes the entries in the cashbook journal the blotter may be dispensed with.*

THE GENERAL LEDGER

The following definition of a ledger is taken from the works of one of the country's leading teachers and authors, R. B. Kester's Accounting Theory and Practice: "The ledger may be defined as the book of accounts. In it are collected most of the data needed for the final statements showing the financial condition of the business. By means of its account titles, it makes an analytical record of all transactions, according to the information desired, and through the mechanism of the account it groups and summarizes all data affecting each particular account, thus furnishing the proprietor with totals instead of items." Since the function of the ledger is to furnish the data for the business statements which are made up at the end of the business period, it follows that two main classes of accounts must be maintained therein, namely, those used for making up the balance sheet, or asset and liability statement, and those for making up the loss-and-gain statement. The first class of accounts consists of assets, liabilities, and the account representing net worth. The second class is made up of temporary net worth increases and decreases brought about by the receipt of income, or profit, and the payment of expenses, or distribution of profits.

The general ledger is the keystone of the bookkeeping system. The cashbook journal is merely a channel through which information flows on its way to the general ledger. The petty ledger, to be discussed fully later, is only a subsidiary of the general ledger.

The use of the cashbook journal and the petty ledger eliminates a mass of bookkeeping information from the general ledger, so although the general ledger is the most important book in a double-entry system it really requires very little *bookkeeping*. All of the postings appearing in it are made in lump-sum totals monthly, from the cashbook journal.

A typical arrangement of accounts in the general ledger is given below. It must be recognized, of course, that all exchanges may not have exactly the same accounts as here given; there may be more or less.

Asset accounts.—Cash, merchandise, accounts receivable, bills receivable, property.

Liability accounts.—Accounts payable, net worth account.

Nominal accounts.—Amusements, expense, amusement room, interest and discount, loss and gain, barber, shoemaker, tailor, lunch counter, fountain.

ASSETS

The asset accounts are divided into appropriate classifications, according to the nature of the asset represented. The usual asset accounts maintained in the post exchange are briefly discussed here.

Cash.—This account will contain on the debit side the cash balance on hand at the beginning of the month or other accounting period; also the sum of all items of cash received during the period (this is total of cash column on debit side of cashbook journal). The credit side will contain the sum of all items of cash actually paid out during the period (this is the total of cash column on credit side of cashbook journal); also (in red ink) the amount of cash remaining on hand at the end of the accounting period.

Merchandise.—This account will contain on the debit side the total of the merchandise (cost value) on hand as shown by the inventory at the beginning of the month or accounting period; also the total of all amounts, including any transportation charge on merchandise (this is total or merchandise column on debit side of cashbook journal). The debit side also will contain (in red ink) the profit on merchandise during the period. The credit side will contain the amount of merchandise sold (selling value) during the period, and the cost value of all merchandise expended, returned to dealer, or transferred to other accounts (this is total of merchandise column on credit side of cashbook journal); also the inventory (cost value) of merchandise on hand at end of period (in red ink).

Accounts receivable.—This asset classification represents the amounts due from other than enlisted personnel. It should primarily represent the balances due from officers for merchandise sold them on account, but it also will include any amount which might be due from firms or individuals with whom the exchange does business. As a general practice the post exchange will have no other accounts receivable other than from officers of the Marine Corps. However, there are occasional instances where a vendor company is, through error, paid an amount in excess of what the exchange actually owes. This excess is properly included in the accounts receivable since it will either be repaid to the exchange or will be offset by subsequent purchases by the exchange. In event of the necessity of returning goods to a vendor company after such goods have been fully paid for it becomes necessary to set up as an asset the amount which the vendor is obliged to remit either in cash or merchandise.

Since the asset, accounts receivable, is a *debit* item it is plain that to reduce this balance it is necessary to *credit* this account. Therefore this account is credited to reflect reductions brought about by payments received, returns of merchandise by the customers, or cancellation of the debit because of uncollectibility.

Bills receivable (due from enlisted men).—The debit side of the account will contain the balance due under this head at the beginning of the period and the total of all sales on credit to enlisted men during the period. (This last entry is the total of the column headed "Bills receivable" on the debit side of the cash-

book journal.) The credit side will show the total of all cash receipts under this head during the period. This is total of column headed "Bills receivable" on credit side of cashbook journal. The credit side will also show (in red) the balance due under this account, which balance must agree with the schedule of bills receivable filed with the balance sheet.

Property.—This account will show transactions in all items concerning property of the exchange which is not carried for sale. The account will show on the debit side the value of all property on hand at the beginning of the accounting period; also the value of all property received during the period; the amount (if any) of any increase in value during the period, such as a sale at a higher amount than the paper value. On the credit side will appear the value of all property expended; the amount realized from the sale of property; the amount of depreciation during the period; and (in red ink) the value of the property on hand at the end of the period.

LIABILITIES

Accounts payable.—On the debit side will be entered the total of all payments made by the exchange to dealers (this is the total of accounts payable column on debit side of cashbook journal). The credit side will show the balance (if any) owed by the exchange to dealers or firms at the beginning of the period, also the total of purchases made by the exchange and total of all other bills incurred by the exchange, whether paid during the period or not (this is the total of "Accounts payable" column on credit side of cashbook journal). The balance of this account (red ink) should agree with total of "Schedule of accounts payable" filed with balance sheet.

Exchange.—The exchange account on the general ledger represents the net worth of the post exchange. It carries a credit balance and is increased by net profit or decreased by net losses which are transferred from the loss and gain account.

Profits distributed.—One of the aims of the post exchange is to provide amusements and benefits for the enlisted personnel. Distribution of profits may take the form of payments in cash out of the fund on hand, or donation of merchandise for the amusement of enlisted men.

Example of the former: The exchange pays $25 to the enlisted men's dance committee for the promotion of a dance.

Example of the latter: The exchange takes from stock of merchandise on hand cigarettes to be distributed to the enlisted personnel on Christmas Day.

It can be easily seen that in either case *profits* are distributed. In order to segregate such distributions of profits from the expenses incurred by the exchange it becomes necessary to maintain a separate ledger account captioned "Amusements." This account will always show a debit balance since its object is to reflect the reduction in net worth. If the student first analyzes the transaction where a reduction in net worth is evident and determines whether or not it is a *regular operating loss*, a *nonoperating loss*, or a distribution of profits, little trouble will be experienced in classifying items which should be charged to amusements.

Expense.—This account will contain on the debit side the total of all items of expense incurred during the period. The following items properly belong to this account: Compensation of attendants, bonding employees, insurance, books,

stationery, and ice, for use in exchange, and transportation charges *only* when the transportation involved is on an item belonging to this account. The debit entry will be the *total* of the expense column debit side of cashbook journal. The credit side of expense account will contain a red ink entry "Loss and gain" of the same amount that is shown on the debit side.

INCOME

Amusement rooms.—This account must not be confused with the "Amusement account." This account covers the activities of the billiard room and bowling alleys and other forms of amusement from which revenue is derived. On the debit side will appear the total expenses involved in conducting this activity. On the credit side will appear the total of the business done (cash and credit), and the balance (red ink) debited or credited to the "Loss and gain" account.

Interest and discount.—In this account are grouped two classifications of income. If the exchange carries a bank account on which it draws interest, the income from this source is reflected on the books by a debit to cash, and a credit to the nominal account, interest and discount.

It was stated previously that discount is a deduction that may be made from a listed or named price in the event that the bill in question is paid within a certain specified time. Discount as here treated is in the nature of income since it amounts to a saving by the post exchange. The discount taken advantage of by the exchange is a saving of a certain amount of cash, through paying a liability with a smaller amount of assets. The difference between the amount of cash paid and the amount of liability liquidated may be considered income. It is in effect a refund made by the seller on account of prompt payment by the exchange. The discount taken advantage of is, for bookkeeping purposes, considered income, therefore, the interest and discount account on the general ledger will show a credit representing such discount. Ordinarily there will be no debits in this account since the exchange does not make a practice of giving cash discounts or paying interest on indebtedness. However, if cash discounts be given or interest paid by the exchange, the amount would be a proper debit to the interest and discount account.

Barber.—This is an *impersonal* account and must not be confused with the personal account of the employee who performs the services. On the debit side will appear the total expenses involved in conducting this activity. On the credit side will appear the total of the business done (cash and credit), and the balance (red ink) debited or credited to the "Loss and gain" account.

Shoemaker.—This is an *impersonal* account and must not be confused with the personal account of the employee who performs the services. On the debit side will appear the total expenses involved in conducting this activity. On the credit side will appear the total of the business done (cash and credit), and the balance (red ink) debited or credited to the "Loss and gain" account.

Tailor.—This is an *impersonal* account and must not be confused with the personal account of the employee who performs the services. On the debit side will appear the total expenses involved in conducting this activity. On the credit side will appear the total of the business done (cash and credit), and the balance (red ink) debited or credited to the "Loss and gain" account.

Lunch counter.—This account will contain on the debit side the total of the lunch supplies (cost value) on hand as shown by the inventory at the beginning of the month or accounting period; also the total of all amounts, including any transportation charge on lunch supplies (this is total of lunch supplies column on debit side of cashbook journal). The debit side also will contain (in red ink) the profit on lunch supplies during the period. The credit side will contain value of all lunch supplies expended, returned to dealer, or transferred to other accounts (this is total of lunch supplies column on credit side of cashbook journal); also the inventory (cost value) of lunch supplies on hand at end of period (in red ink).

Soda fountain.—This account will contain on the debit side the total of the soda fountain supplies (cost value) on hand as shown by the inventory at the beginning of the month or accounting period; also the total of all amounts, including any transportation charge on soda fountain supplies (this is total of soda fountain supplies column on debit side of cashbook journal). The debit side also will contain (in red ink) the profit on soda fountain supplies during the period. The credit side will contain value of all soda fountain supplies expended, returned to dealer, or transferred to other accounts (this is total of soda fountain supplies column on credit side of cashbook journal); also the inventory (cost value) of soda fountain supplies on hand at end of period (in red ink).

It is essential that the transactions affecting soda fountain be kept separate from those pertaining to other merchandise for the reason that if receipts for soda fountain sales are included as merchandise sales the merchandise inventory will disclose a shortage when an inventory is made and the soda fountain will show a corresponding overage. Ice cream is particularly difficult to inventory and it is very easy for an attendant to divert receipts from sales of ice cream to the merchandise account and thus cover up shortages in that account. It can readily be seen that it is therefore quite necessary that separate accounts be kept to cover the transactions in the soda fountain account.

Loss and gain.—The loss and gain account in the general ledger is a summary of all the nominal accounts, that is, the accounts representing income and expense. The balances of all income accounts are transferred to the credit of this account and the balances under expense and amusement accounts and any other account representing losses are transferred to the debit of the loss and gain account. *Nonoperating expense and income* are also represented in this account. The balance represents the net gain or loss that has resulted from the month's operations. Applying the rule of debit and credit, it can be seen that a *credit balance* in this account indicates a *gain* while a *loss* is indicated by a *debit balance.* The balance of this account is transferred to the opposite side of the exchange account as will be illustrated in a succeeding pamphlet.

CASHBOOK JOURNAL

In this record is entered the data in "separate columns, appropriately headed, according to the classification into which it is desired to divide the receipts and expenditures."

A form of the cash book journal is here shown.

The purpose of the arrangement of money columns in the cashbook journal is to simplify the posting of the various classifications of data to the ledger. When

the debits and credits to particular asset and liability accounts are all recorded in a separate column it is much easier to transfer the *total* of these columns to the proper ledger accounts, than it would be to post each individual transaction. The same reason is applied to the several classifications of expense, income, etc.

The cashbook journal is known as the *book of original entry*, since every transaction affecting the post exchange must be recorded therein before any entry is made in either of the ledgers. The *written evidence* of the transaction, whether it be a purchase, a sale, a loan, or a donation, furnishes the basis for the entry in this record. The original entry consists of analyzing the transaction, determining what elements of the bookkeeping equation are affected and in what manner, for the purpose of ascertaining the debit and credit to be recorded upon the books. After the record has been made in this book of original entry the data is transferred from it to what is known as *the books of permanent entry*, or the ledgers.

There are therefore three records through which each transaction must pass. First, the *business papers;* second, the *cashbook journal;* and third, the *ledgers.* We will now consider the use to be made of the cashbook journal and the various methods of recording the business transactions as indicated by the invoices, vouchers, steward's reports, and other miscellaneous data. The only purpose served by the cashbook journal is to prepare the information in such a manner that it may be posted to the ledger, or permanent record, in a condensed form.

The various arrangements of the columns should be carefully studied. It will be noted that on the *left* side of the sheet columns are provided to receive the *debits* to accounts representing assets, liabilities, and net worth, and on the *right* side of the sheet is a similar arrangement of columns for the purpose of recording *credits* to assets, liabilities, and net worth. The columns *represent accounts on the general ledger.* If a ledger account has only debits posted thereto, as in the case of amusements and expenses, a debit column only is provided on the cashbook journal. Accounts which ordinarily have both debit and credit transactions are represented in the cashbook journal by both debit and credit money columns. The *left-hand* columns are *debits* and the *right-hand* columns are *credits. Fix this principle firmly in mind.* Always consider the columns of this record as representing the general ledger account.

Cash.—We know that the cash account is debited with all receipts and that it is credited with all payments. Therefore, it becomes necessary to maintain both a debit and a credit column in the cashbook journal. The totals of these columns are posted directly to the account in the general ledger. The current receipts are debited to the cash account, which carries the balance on hand at the beginning of the month. When the current payments are credited to the cash account there will exist a *debit balance* in the account representing the *amount on hand at the end of the month.*

Merchandise.—In the case of merchandise this account must be debited with all purchases during the accounting period, and, therefore, a debit column is provided. The ledger account carries the balance on hand as represented by a physical inventory on the first day of the accounting period. Consequently, when the month's purchases are posted in total from the debit column of the cashbook journal the ledger account will represent the merchandise which *must be accounted for.* The sales during the period are a proper credit to merchandise, so a special column is maintained in which to segregate these credits

Mer-handise	PETTY LE	
	Accounts payable	Accou receiva

DEBIT *Month of* 193 CREDIT

		Amusements	Property	Expense	Loss and gain	Shoemaker	Tailor	Barber	PETTY LEDGER: Bills receivable	PETTY LEDGER: Accounts receivable	PETTY LEDGER: Accounts payable	Merchandise	Cash	Folio	Date	✓Council	REMARKS	Folio	Invoice No.	Voucher No.	Check No.	Cash	Merchandise	PETTY LEDGER: Accounts payable	PETTY LEDGER: Accounts receivable	PETTY LEDGER: Bills receivable	Barber	Tailor	Shoemaker	Loss and gain	Interest and discount	Property	Amusement rooms		

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in order that they may be posted in total at the end of the accounting period. A physical inventory is taken with a view to determining the value of merchandise on hand at the end of the accounting period. The total amount *to be accounted* for as shown by the debits in this account is partially accounted for by being on hand, therefore the final inventory valued at cost is credited to the merchandise account. The amount not on hand was apparently sold. The price at which such merchandise was sold is represented by the total of the credit column of the cashbook journal. It is therefore evident that the credits to the merchandise account will exceed the debits; the excess represents the amount of profit realized on sales of merchandise.

Accounts payable.—The accounts payable account in the general ledger carries a credit balance at the beginning of the period to which must be added all liabilities incurred during the period. The additional liabilities are entered in a special column in the cashbook journal so that the total thereof may be carried to the credit side of accounts payable account. Liabilities paid must be debited to accounts payable, and therefore a special column must be provided on the debit side of the journal in which to enter such reductions of accounts payable. When the total of the current credits and the current debits was carried to the ledger account the balance will represent the net liability to creditors as at the end of the business period.

Accounts receivable.—Accounts receivable are assets, and the ledger account will carry a debit balance at the beginning of the period to which must be added subsequent receivables that arise from operations. A column on the debit side of the journal makes possible this accumulation, so that the total amount may be entered as a debit in the account. Naturally, to record receipts of payments on accounts receivable, a credit must be affected. The credit column of the journal receives all credits to accounts receivable, and the total of this column is likewise carried to the proper ledger account. The balance at the beginning of the accounting period plus the current additions and less the current reductions produces the net debit balance of the account, which represents the total of accounts receivable at the end of the accounting period.

Bills receivable.—Two columns are provided in which to record the data concerning bills receivable. Since this account is similar in nature and requires almost identical treatment as accounts receivable, further comment is considered unnecessary.

Miscellaneous.—The ledger accounts with the barber, tailor, and shoemaker are all of a like nature, and since both debits and credits are likely to occur in each of these accounts it becomes necessary to provide both a debit and credit column for each activity so that the total debits or credits may be determined for posting to the ledger accounts.

The columns captioned loss and gain on the journal are provided to receive the debits and credits affecting nonoperating income and expenses. Nonoperating expenses are of course entered in the debit column and nonoperating income is recorded in the credit column. The total of each column is carried to the proper side of the loss and gain account in the ledger. As before stated the loss and gain account will also show a summary of the operating expenses and income, but the means by which this is brought about will be discussed when closing the books is taken up.

Columns are provided for debits and credits to property, and the totals of these columns are carried to the ledger account in the same manner as other increases and decreases in assets.

Extra columns.—Two or more blank columns are provided in the regulation form of the cashbook journal which may be captioned to suit the requirements of the individual post exchange in instances where accounts are required in addition to the ones ordinarily maintained. An account is opened in the general ledger with a suitable caption to indicate the nature of the information recorded therein. The debits and credits thereto are accumulated in appropriate columns on the journal and posted in total in the same manner as all other data. It would not be necessary to provide both debit and credit columns, of course, if the account is one which requires only debits or credits. Sometimes the standard columns do not allow of sufficient classification of expenses, income, distribution of profits, assets, or liabilities, in which case the blank columns may be utilized and captioned as desired.

Where more general ledger accounts are required than are provided for by the columns of the journal this condition may be met by using two of the extra columns in which to record sundry transactions. A column on the extreme left and one on the extreme right of the sheet should be captioned "Sundry," "Miscellaneous," or "General." When a transaction occurs which does not come within the category of the regular ledger accounts the debit or credit as the case may be is extended into the sundry column. At the end of the accounting period when the totals of the various columns are carried to the general ledger, the *individual items* contained in the sundry column *are posted* to the proper ledger accounts. The *total* of these sundry columns *are not posted* to the general ledger.

MAKING ENTRIES IN THE CASHBOOK JOURNAL

There are three sources of entries in this record: (1) Steward's daily report, (2) invoices, (3) vouchers.

Entering steward's daily report.—The information furnished by the steward's daily report concerning the amount of cash received during the day, and the source of such cash receipts is entered *daily*. The explanation column provided in the center of the sheet should be filled in to identify each individual transaction, by giving the source of data which gives rise to the entry. If the steward's daily report is the business paper from which entry is being made, this fact should be stated in the explanation column by writing the words "Steward's daily report." The space provided for the date should be filled in with the day of the month. Since cash is the asset received it is proper to debit cash by making an entry in the cash column opposite the explanation, the sources of income, such as merchandise, lunch room, fountain, etc., and the amount of income from each are credited in the proper columns on a direct line with the written explanation. Be sure that the total of the credits equals the debit or debits.

Entering invoices.—Merchandise purchased on account is, of course, debited to merchandise for the cost value, the name of the vendor is written in the explanation column, the number of the invoice is recorded in the narrow column provided for this purpose, and the credit representing the liability is extended into the accounts payable column. *The object of writing the name of the vendor in*

the explanation column is to indicate the petty ledger account to which the item should be posted.

Entering vouchers.—Vouchers are entered similar to invoices, that is, the account in the petty ledger to be debited is written in the explanation column, the number of the voucher and the check number are inserted in the space provided. The debit amount is recorded in the proper column, and the credit is entered under the proper classification.

PETTY LEDGER

Controlling accounts.—We have stated that the general ledger account captioned accounts receivable, represents the amounts due from firms or individuals other than enlisted men of the Marine Corps, that the ledger account, bills receivable, represents the amount due from enlisted men of the Marine Corps, and that the ledger account, accounts payable, indicates balances owed by the post exchange to others.

It can be seen that no information is given in any of these accounts as to what items make up the balance of the account. For instance a balance in the accounts receivable account of $1,000 merely shows that somebody owes the exchange $1,000. We do not know from whom this amount is due, whether it is all due from one source or from a number of customers. The post-exchange officer therefore sees the necessity of furnishing more definite information concerning these balances. A $1,000 balance in the accounts receivable account might consist of the following:

Due from—John Jones	$50. 00
Richard Roe	475. 00
James Smith	425. 00
John Doe	50. 00
	1, 000. 00

In order to provide this information a subsidiary ledger, known as the petty ledger, in which is recorded all personal accounts receivable, and payable, is maintained. The petty ledger carries only personal accounts as distinguished from the general ledger which carries all of the main or general accounts of the exchange, as well as the summary account representing *the sum of the balances* shown on the individual petty-ledger accounts. The accounts on the general ledger which represent the totals of numerous individual accounts are known as controlling accounts.

As the balance shown by the controlling account in the general ledger must represent the balances of the individual accounts shown in the petty ledger, postings from the cashbook journal must be made to both the controlling account and the individual account. This is accomplished by providing special columns to accumulate the totals affecting each controlling account as before explained. The *items* in these columns *are posted to the individual account* in the petty ledger. It is apparent then that if the *total of the debit column* of the cashbook journal is posted to the *accounts receivable* account in the general ledger, and *all of the items making up the total of this column* are posted as *debits in the petty ledger account*, that the petty-ledger balances will exactly equal the balance shown by the accounts-receivable account. Credits to accounts receivable are treated in

the same manner. The total of the credits to accounts receivable as shown by the footing of the journal column is carried to the general ledger account, accounts receivable, and the items making up this total are posted as credits in the individual customer's accounts in the petty ledger. Then the *debit balances* of the petty ledger accounts should equal the debit balance of the accounts receivable account. If such is not the case it is apparent that an error has been made in posting to the individual account and it then becomes necessary to trace the postings until the error is discovered.

We have briefly outlined the method of handling the accounts receivable controlling account, and since the same principles apply in keeping the accounts payable controlling account and the subsidiary accounts, further detail is not required. The only difference between these two classes of accounts is that the former carries debit balances and the latter carries credit balances; the former represents assets while the latter represents liabilities.

Ordinarily it is not necessary to maintain *subsidiary ledger accounts* for bills receivable. It is the general practice in exchanges where credit is extended to enlisted men for a list to be made up of the men to whom credit is extended, showing the amount due from each individual. This list then constitutes the subsidiary records in support of the balance then in the bills receivable account on the general ledger. When the balances are collected a notation is made to that effect upon the list. The regular entries affecting the controlling account are made, however.

THE STEWARD'S ACCOUNT

The steward of the post exchange is held personally responsible to the post-exchange officer for all merchandise and other goods held for sale. The means by which the liability of the steward is determined is to fix the selling price of all merchandise at the time it is put into his charge. The steward is then held liable for the stock on hand valued at the selling price. It was stated in the discussion of invoices that the selling price of the goods was to be computed and recorded on the face of the invoice. It will now be apparent why this is necessary.

The steward's account, a model of which is here shown, is a record in ledger account form in which the exchange officer or his authorized assistant keeps an account of all *merchandise or other goods* turned over to the steward for sale, and subsequent reductions thereof.

Making entries in steward's account.—The exchange officer, or his authorized assistant, will keep in his own handwriting a memorandum account with the steward in which all entries will be made in the presence of the steward charging him with the selling value of the merchandise turned over to him for sale, and crediting him with the selling value of all goods sold or properly expended. Proper debit or credit will be made when selling prices are changed. The balance of this account will show the selling value of the merchandise which the steward should have on hand, and this balance will be carried forward to the next period. The value of the inventory will be entered on the old account and a comparison made with the balance. The difference, if any, will be entered in the post-exchange council's report with recommendation as to the action to be taken and the following month will be debited or credited to the steward's account as required by the approved report of the exchange council.

POST-EXCHANGE STEWARD'S ACCOUNT

Date	Coun. √	Name of firm or source of credit	Inv. No.	DEBIT		A. & I. √	CREDIT	
				Selling value			Sales, etc.	

EXCHANGE OFFICER'S BLOTTER

This record constitutes a complete account of all *cash* received and disbursed during the month. It must be kept in the handwriting of the post-exchange officer or his authorized assistant, but it may be omitted if the exchange officer keeps the cashbook journal as before stated. It is practically in the form of a ledger account. Debits are entered on the left and credits on the right. Since cash receipts are proper debits they should be entered on the left of this account. The usual explanation column is provided in which to make a notation of the source from which cash was received. Full explanation of each transaction should be given. Cash payments are recorded on the credit side of this account, giving name of firm to whom payment was made, number of the check, and the amount. Entries for receipts of cash are made from the steward's daily report or other business paper which substantiates such receipt. Cash disbursements should be recorded direct from the check stubs. In case of payments made in currency a proper voucher should be prepared and this would form the basis for entry in the blotter.

Since all cash transactions must also be recorded in the cashbook journal it is plain that a double record is maintained for cash. This is merely a precaution to safeguard and obtain an accurate account of cash. The balance shown by the general books should agree with the balance of this record.

A form of the blotter is shown below.

Marine barracks_____

Month of_____ 19____

POST-EXCHANGE OFFICER'S BLOTTER

CASH RECEIPTS					CASH EXPENDITURES					
Date	√ Coun.	Source	Amount	√ A. & I.	Date	√ Coun.	Name of firm	Check No.	Amount	√ A. & I.

ACCOUNTS RECEIVABLE LEDGER

[All entries in italics should be made with red ink]

First Lieut. J. J. Brown

1928 Dec. 13	Merchandise	M-12	$5.95				

Home Fire Insurance Co.

1928 Dec. 10	Cash	5	$40.00	1928 Dec. 31	Expense	M-16	$3.33
					Balance down		*36.67*
			40.00				40.00
1929 Jan. 1	Balance down		36.67				

Capt. John Lamont

1928 Dec. 11	Merchandise	M-4	$10.50	1928 Dec. 12	Returned merchandise	M-6	$4.25
					Cash	M-7	6.25
			10.50				10.50

ACCOUNTS PAYABLE LEDGER

[All entries in italics should be made with red ink]

American Electric Co.

				1928 Dec. 13	Barber	21	$8.40

Elmer Bennett (P. E. Clerk)

1928 Dec. 13	Merchandise	M-5	$0.75	1928 Dec. 31	Expense	Vo. 13	$15.00
31	Cash	14	14.25				
			15.00				15.00

Bebier & Co.

				1928 Dec. 10	Merchandise	16	$183.25

Chesapeake & Potomac Telephone Co.

				1928 Dec. 31	Expense	25	$4.75

William Collins (P. E. Bookkeeper)

1928 Dec. 31	Cash	13	$15.00	1928 Dec. 31	Expense	Vo. 13	$15.00

EATON, CRANE & PIKE CO.

				1928 Dec. 5	Merchandise	9	$6.75

FEDERAL STORAGE CO.

1928 Dec. 4	Cash	1	$15.00	1928 Dec. 4	Expense	6	$15.00

J. G. GORDON (P. E. STEWARD)

1928 Dec. 31	Cash	12	$25.00	1928 Dec. 31	Expense	Vo. 13	$25.00

HAMILTON HARDWARE CO.

1928 Dec. 13	Cash	10	$130.54	1928 Dec. 4	Merchandise	5	$96.25
				8	"	14	34.29
			130.54				130.54

HEADQUARTERS EXCHANGE OFFICER

				1928 Dec. 3	Property and expense	4	$78.00

HOFFMAN PRESSING MACHINE CO.

1928 Dec. 31	*Balance down*		*$186.05*	1928 Dec. 6	Property	11	$179.80
				13	Expense	22	6.25
			186.05				186.05
				1929 Jan. 1	Balance down		186.05

LIGGETT-MEYERS TOBACCO CO.

1928 Dec. 6	Cash	2	$117.52	1928 Dec. 4	Merchandise	7	$417.52
31	*Balance down*		*300.00*				
			417.52				417.52
				1929 Jan. 1	Balance down		300.00

LOCK TIGHT SAFE CO.

1928 Dec. 6	Cash	3	$7.50	1928 Dec. 3	Expense	3	$7.50

MARINE CORPS FUND

				1928 Dec. 1	Cash	M-1	$350.00

MAVIS BOTTLING CO.

1928 Dec. 11	Returned merchandise	M-5	$6.50	1928 Dec. 6	Fountain	13	$24.00
31	*Balance down*		*17.50*				
			24.00				24.00
				1929 Jan. 1	Balance down		17.50

NATIONAL GROCERY CO.

				1928 Dec. 10	Lunch counter	18	$47.86

OLD FURNITURE CO.

1928 Dec. 13	Cash	11	$5.90	1928 Dec. 30	Property	23	$5.90

POST COMMISSARY

1928 Dec. 12	Cash	9	$1.98	1928 Dec. 12	Fountain	19	$1.98
				31	Bread	26	12.57

REMINGTON RAND, INC.

1928 Dec. 12	Cash	7	$75.00	1928 Dec. 2	Property	1	$75.00

RESTAURANT EQUIPMENT CO.

				1928 Dec. 10	Property	17	$48.25

SINGER SEWING MACHINE CO.

				1928 Dec. 31	Property	24	$129.50

RALPH SMITH (POST BAKER)

				1928 Dec. 31	Bread	27	$4.19

A. G. Spalding & Bros.

1928				1928			
Dec. 13	Returned merchandise	M-14	$9.45	Dec. 5	Merchandise	10	$57.00
31	*Balance down*		*261.55*	9	Property	15	214.00
			271.00				271.00
				1929			
				Jan. 1	Balance down		261.55

Underwood Typewriter Co.

				1928			
				Dec. 3	Property	2	$65.00

Velvet Kind Ice Cream Co.

				1928			
				Dec. 6	Fountain	12	$46.00

Victor Phonograph Co.

				1928			
				Dec. 13	Property	20	$215.00

Ward's Fudge Shop

1928				1928			
Dec. 8	Cash	4	$67.20	Dec. 4	Merchandise	8	$67.20

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KEEPING THE GENERAL BOOKS

At this point in the course the student should be sufficiently familiar with the principles of double-entry bookkeeping to comprehend the practical aspects of accounting as applied to post exchanges. The student should have an open mind in regards to particular problems that arise. Sound reasoning is at the bottom of every entry that must be made. He should be sure that he understands why entries are made in a certain way. He should realize that there are sometimes more than one method of accomplishing the same result. Bookkeeping is not an exact science. No inflexible rules can be laid down for maintaining a bookkeeping system. The points to be kept in mind are:

1. The desire for information as to the internal workings of the exchange is the prime reason for keeping books.
2. Accuracy in analyzing, classifying, and compiling this information is essential.
3. Simplicity and directness of methods should be employed at all times.
4. Neatness in making entries is also important.

MAKING ENTRIES IN THE CASHBOOK JOURNAL

We will now attempt to demonstrate to the student the technique of keeping the cashbook journal. At first sight a sheet of this size with its many columns and figures has a tendency to strike awe into the heart of one not familiar with its intricacies. It really is very simply arranged.

Every transaction of the post exchange affecting its financial welfare must be recorded in the cashbook journal, therefore it can be seen that many different types of entries are necessary. We have made an attempt to determine every type of entry which will be required in this form. They are given here, and the correct manner of *entering* them in the cashbook journal will be demonstrated.

Assuming that this exchange is just beginning operations, we will give dates on which the various transactions occur, together with the transaction itself. In the cashbook journal the transaction will be recorded under a corresponding date, so little difficulty should be experienced in tracing each entry into the books. The transactions from the 14th to 30th inclusive have been omitted for the sake of brevity.

The student must not consider the following list of transactions as a transcript of a daybook. A daybook is *not* required. The list is given merely as a detailed explanation of what occurred, in lieu of exhibiting the invoices, vouchers, and memorandums which actually represents the transactions.

Memorandums.—A separate file may be maintained in which to preserve memorandum notations in support of entries which have their origin in other than invoices and vouchers proper. An example of this form of entry is merchandise returned. These memorandums may be numbered consecutively and filed in the same manner as explained for invoices and vouchers. An alternative is to consider all business papers as *vouchers*, except invoices, in which event they would be numbered consecutively with the other vouchers and kept in the same file.

Where the so-called voucher check system is in use a separate file must be maintained for memorandum notations, but where the voucher and check system is practiced the memorandums may all be considered vouchers and numbered and filed as such.

In the cashbook journal here illustrated a separate file is presumed to have been used for memorandums, but inasmuch as the voucher check system is not used here the alternative method of filing memorandums might have been used.

When the student has become familiar with the cashbook journal, entries properly made therein will, except in rare cases, clearly indicate the nature of the transaction represented.

PRACTICAL APPLICATION

DECEMBER 1

A loan was made from the Marine Corps fund of $350. (Memo. No. 1.)

Explanation.—The *cash account* in the *cashbook journal* was debited with $350 because cash was received.

The $350 was loaned to the post exchange by the Marine Corps fund; the amount is to be refunded by the exchange at such periods and in such amounts as may be convenient, therefore it is an *account payable* by the exchange, and, the Marine Corps fund having loaned the money to the post exchange, must be given *credit* in the *petty ledger* for $350; a *credit* entry for the same amount must also be made in the *cashbook journal* under *accounts payable.*

DECEMBER 2

Purchased from Remington Rand (Inc.), on account one cash register invoiced at $75. (Invoice No. 1.)

Explanation.—The cash register was taken up as *property* because it was purchased for use in the post exchange, and not for sale; the *property account* was therefore *debited.*

An account with Remington Rand (Inc.), was opened in the *petty ledger;* they were *credited* with the purchase price of the cash register, $75; the exchange owes Remington Rand (Inc.) that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the *accounts payable* account was credited with the same amount.

DECEMBER 3

Purchased on account from the Underwood Typewriter Co., one typewriter valued at $65. (Invoice No. 2)

Explanation.—The typewriter was taken up as *property* because it was purchased for use in the post exchange, and not for sale; the *property account* was therefore debited. An account with the Underwood Typewriter Co. was opened in the *petty ledger;* they were credited with the purchase price of the typewriter, $65; the exchange owes the Underwood Typewriter Co. that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the *accounts payable* account was credited with the same amount.

	PETTY LED	
L rchan- tise co	Accounts payable	Account receivab
	$350.00	
	75.00	
	65.00	
	7.50	
	78.00	
	96.25	
	15.00	
	417.52	
	67.20	
26.14		
	6.75	
	57.00	
73.98		
	179.80	
16.00		
	46.00	
	24.00	
74.13		
	34.29	
52.90		
	214.00	
64.13		
96.00		
	183.25	
	48.25	
	47.86	
98.18		
10.50		
6.50		
102.18		
		$4.
		6.
	1.98	
103.40		
.75		
4.16		
5.95		
15.00		
9.45		
2.65		
	215.00	
	8.40	
	6.25	
	5.90	
132.48		
	25.00	
	15.00	
	15.00	
		3.
	129.50	
	4.75	
	12.57	
	4.19	
594.48 (2)	2,456.21 (6)	13. (3)

DEBIT — *Cashbook journal—Month of December, 1928* — CREDIT

Lunch counter	Fountain	Amusements	Property	Expense	Loss and gain	Bread	Tailor	Barber	PETTY LEDGER: Bills receivable	PETTY LEDGER: Accounts receivable	PETTY LEDGER: Accounts payable	Merchandise	Cash	Folio	Date	√ Council	REMARKS	Folio	Invoice No.	Voucher No.	Check No.	Cash	Merchandise	PETTY LEDGER: Accounts payable	PETTY LEDGER: Accounts receivable	PETTY LEDGER: Bills receivable	Barber	Tailor	Bread	Loss and gain	Interest and discount	Property	Amusement rooms	Fountain	Lunch counter
													$350.00		1		Marine Corps fund			M-1				$350.00												
			$75.00												2		Remington Rand (Inc.)		1					75.00												
			65.00														Underwood Typewriter Co		2					65.00												
				$7.50													Lock-Tight Safe Co		3					7.50												
			48.00	30.00													Headquarters exchange officer		4					78.00												
												$96.25			4		Hamilton Hardware Co		5					96.25												
				15.00							$15.00						Federal Storage Co		6	1	1	$15.00		15.00												
												417.52					Liggett-Meyers Tobacco Co		7					417.52												
												07.20					Ward's Fudge Shop		8					07.20												
													26.14		5		Steward's daily report						$20.14												
				6.75													Eaton, Crane & Pike Co		9					6.75												
												57.00					A. G. Spalding & Bros		10					57.00												
													73.98		6		Steward's daily report						73.98												
		$10.00	170.80														Hoffman Pressing Machine Co		11					170.80												
	$46.00																Donated to amusements			M-2			16.00												
	24.00																Velvet Kind Ice Cream		12					46.00												
																	Mavis Bottling Co		13					24.00												
											117.52						Liggett-Myers Tobacco Co			2	2	117.52														
											7.50						Lock-Tight Safe Co			3	3	7.50														
													79.51		8		Steward's daily report						74.13					$5.38							
											67.20						Ward's Fudge Shop			4	4	65.80										$1.34				
												34.29					Hamilton Hardware Co		14					34.29												
													60.43		9		Steward's daily report						52.90					3.14						$4.39		
			150.00														Morale officer			M-3											$150.00					
			214.00														A. G. Spalding & Bros		15					214.00												
													93.41		10		Steward's daily report						64.13					3.13					$12.65	18.50		
									$90.00								Recruit Issue			M-4			96.00													
												183.25					Be Vier & Co		10					183.25												
										$40.00							Home Fire Insurance Co			5	5	40.00														
			4.96														John Doe, drayman			0	6	4.96														
			48.25														Restaurant Equipment Co		17					48.25												
$47.86																	National Grocery Co		18					47.86												
													136.14		11		Steward's daily report						98.18					1.25					9.25	16.48	$10.98	
										10.50							Capt. John Lamont			M-5			10.50													
											6.50						Mavis Bottling Co			M-6			6.50													
													143.90		12		Steward's daily report						102.18					1.88		8.65			11.25	10.15	9.85	
											75.00						Remington Rand (Inc.)			7	7	75.00														
												4.25					Capt. John Lamont			M-7					$4.25											
												1.46					Pennsylvania R. R. Co			8	8	1.46														
													6.25				Capt. John Lamont			M-8					6.25										
	1.98										1.98						Post commissary		19	0	9	1.98		1.98												
		25.00															Donated to amusements			10	10	25.00														
				.46													Postage on returned merchandise			11	Cash	.46														
											.75		131.90		13		Steward's daily report						103.40					1.72		7.50			8.15	5.13	6.00	
					$2.25												Elmer Bennett			M-0			.75													
					4.16								2.50				James M. Clark			M-10						$2.25										
																	Adams Junk Co			M-11											2.50					
																	Merchandise surveyed			M-12			4.16													
										5.95							First Lieut. J. J. Brown			M-13			5.95													
											130.54						Hamilton Hardware Co			12	11	127.65										2.89				
			15.00														Merchandise transferred to property			M-14			15.00													
											9.45						A. G. Spalding & Bros			M-15			9.45													
				2.65													Expended merchandise			M-16			2.65													
			215.00														Victor Phonograph Co		20					215.00												
								$8.40									American Electric Co		21					8.40												
				0.25													Hoffman Pressing Machine Co		22					0.25												
			5.90								5.90						Old Furniture Co		23	13	12	5.90		5.00												
													187.94		31		Steward's daily report						132.48					1.70	$20.00	4.80			12.00	8.75	8.15	
				25.00							25.00						J. G. Gordon			14	13	25.00		25.00												
				15.00							15.00						Wm. Collins			14	14	15.00		15.00												
				15.00							14.25						Elmer Bennett			14	15	14.25		15.00												
				3.33													Home Fire Insurance Co			M-17					3.33											
													1.82				Interest on bank account			M-18											1.82				
					14.00												Property depreciation			M-10													$14.00			
			140.00														Singer Sewing Machine Co		24					129.50							4.60			5.00			
				4.75													Chesapeake & Potomac Telephone Co		25					4.75													
						$12.57											Post commissary		26					12.57												
						4.19											Ralph Smith		27					4.19												
47.86 (14)	71.98 (15)	41.00 (8)	1,100.91 (5)	131.09 (9)	20.41 (17)	10.76 (16)		8.40 (12)	90.00 (4)	56.45 (3)	491.59 (6)	801.22 (2)	1,298.98 (1)									542.54 (1)	94.48 (2)	2,456.21 (0)	13.83 (3)	2.25 (4)	18.26 (12)	20.00 (13)	20.95 (10)	157.10 (17)	6.05 (11)	19.90 (5)	53.30 (10)	63.40 (15)	34.98 (14)

Rented from the Lock-Tight Safe Co., one iron safe at a cost of $7.50 per month payable in advance. (Invoice No. 3.)

Explanation.—An account with the Lock-Tight Safe Co. was opened in the *petty ledger*, and they were credited with the $7.50; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *expense account*. The amount of $7.50 was *debited* to the *expense account* because it was an expenditure incident to the operation of the exchange (for which nothing was received in return).

Purchased binders for accounting records costing $48 and blank forms costing $30 from headquarters exchange officer. (Invoice No. 4.)

Explanation for binders.—The binders were taken up as *property* because they were purchased for use in the post exchange, and not for sale; the *property account* was therefore *debited*. An account with the headquarters exchange officer was opened in the *petty ledger;* he was credited with the purchase price of the binders, $48; the exchange owes the headquarters exchange officer that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the *accounts payable* account was credited with the same amount.

Explanation for blank forms.—All entries for the blank forms were exactly similar to the entries for the binders except that the *cashbook journal* was debited under the *expense* account instead of the *property* account because the blank forms are intended for current consumption.

DECEMBER 4

Purchased from Hamilton Hardware Co. goods invoiced at $96.25 (discount 3 per cent in 10 days). (Invoice No. 5.)

Explanation.—The *merchandise account* in the *cashbook journal* was *debited* with $96.25 because it was increased by that amount of merchandise having been received by the post exchange.

An account with the Hamilton Hardware Co. was opened in the *petty ledger*, and they were *credited* with the $96.25; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *merchandise account*.

Paid Federal Storage Co. one year's premium on bond for post exchange steward, $15. (Invoice No. 6, voucher No. 1, check No. 1.)

Explanation.—Expense was incurred for one year's premium on bond for post exchange steward, therefore *expense* must be *debited* with $15 and an account is opened in the petty ledger with the Federal Storage Co. and they were *credited* with the $15; it is therefore an *account payable* and an entry must be made on the *credit* side of the *accounts payable* account. Cash was *paid out*, therefore, the *cash account* must be *credited* with the $15 and a corresponding entry must be

made *debiting accounts payable.* A *debit* entry should also be made in the petty ledger to show that the account has been paid.

Purchased on account from the Liggett & Myers Tobacco Co. merchandise invoiced at $417.52. (Invoice No. 7.)

Explanation.—The *merchandise account* in the *cashbook journal* was *debited* with $417.52 because it was increased by that amount of merchandise having been received by the post exchange.

An account with the Liggett & Myers Tobacco Co. was opened in the *petty ledger*, and they were *credited* with $417.52; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *merchandise account.*

Purchased on account from the Ward Fudge Shop, merchandise valued at $67.20 (discount 2 per cent in 10 days.) (Invoice No. 8.)

Explanation.—The *merchandise account* in the *cashbook journal* was debited with $67.20 because it was increased by that amount of merchandise having been received by the post exchange.

An account with the Ward Fudge Shop was opened in the *petty ledger*, and they were *credited* with the $67.20; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *merchandise account.*

DECEMBER 5

Purchased from Eaton, Crane & Pike Co. stationery invoiced at $6.75 for use in the exchange. (Invoice No. 9.)

Explanation.—An account with Eaton, Crane & Pike Stationery Co. was opened in the *petty ledger;* their account was *credited* with the amount of the invoice, $6.75, the exchange owes the Eaton, Crane & Pike Co. that amount. It is therefore an *account payable* by the exchange, and a *credit* entry of $6.75 must also be made in the *cashbook journal* under *accounts payable.* Expense was incurred to the amount of $6.75, therefore, the *expense* account is *debited* with this amount.

The steward's daily report showed cash turned over to the exchange officer amounting to $26.14. This was derived from sales of merchandise.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $26.14 cash received from the sale of merchandise, because it increased the cash on hand to that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $26.14, because the total amount of merchandise on hand was decreased thereby.

Goods purchased from A. G. Spalding & Bros. amounted to $57. (Invoice No. 10.)

Explanation.—The *merchandise account* in the *cashbook journal* was *debited* with $57 because it was increased by that amount of merchandise having been received by the post exchange.

An account with A. G. Spalding & Bros. was opened in the *petty ledger*, and they were *credited* with the $57; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the debit entry in the *merchandise account*.

DECEMBER 6

Received from steward with daily report, cash totaling $73.98, derived from merchandise sales.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $73.98 cash received from the sale of merchandise, because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $73.98, because the total amount of merchandise on hand was decreased thereby.

A barber was given a concession with the agreement that he was to pay to the post exchange 15 per cent of all income received by him. His electric bill is to be paid by the exchange.

The exchange also gave a concession to an ex-marine who is to serve as post tailor. His rent is payable on the last day of each month at the rate of $25 per month.

A pressing machine was purchased from the Hoffman Pressing Machine Co. for use in the tailor shop at a cost of $179.80. (Invoice No. 11.)

Explanation.—The pressing machine was taken up as *property* because it was purchased for use in the post exchange, and not for sale; the *property account* was therefore *debited*.

An account with the Hoffman Pressing Machine Co., was opened in the *petty ledger;* they were *credited* with the purchase price of the pressing machine, $179.80; the exchange owes the Hoffman Pressing Machine Co. that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the *accounts payable* account was credited with the same amount.

Cigarettes were donated from stock to be served at Sunday dinner, cost value $16. (Memo. No. 2.)

Explanation.—The *amusement account* in the *cashbook journal* was *debited* with $16, because it received that amount of merchandise for disposal toward amusements. The *merchandise account* was decreased by that much merchandise, and was therefore *credited* in the *cashbook journal* with having donated it to amusements.

Note.—Any merchandise donated from stock or surveyed should be *credited* under the caption *Merchandise* in the *cashbook journal* at the *cost price*, but care should be taken that the *steward's account* is *credited* at the *selling price*.

Installed a soda fountain in the exchange and purchased ice cream from the Velvet Kind Ice Cream Co. at an invoiced cost of $46. (Invoice No. 12.)

Explanation.—Merchandise was purchased for the use of the soda fountain, therefore the *fountain* account was *debited* with the amount, $46. An account was opened in the *petty ledger* with the Velvet Kind Ice Cream Co. and *accounts payable* was credited with the amount, $46.

Received from the Mavis Bottling Co. merchandise (including containers) invoiced at $24 (soft drinks). (Invoice No. 13.)

Explanation.—Merchandise was purchased for the use of the soda fountain, therefore the *fountain* account was *debited* with the amount, $24. An account was opened with the Mavis Bottling Co. in the *petty ledger*, and *accounts payable* was credited with the amount, $24.

Paid Liggett & Myers Tobacco Co. $117.52 on merchandise purchased December 4. (Voucher No. 2, check No. 2.)

Explanation.—Cash was paid out, therefore the *cash account* in the *cashbook journal* must be *credited* with having paid out that amount. An account with the Liggett & Myers Tobacco Co. was opened in the *petty ledger* when the merchandise was received; the company was then given credit in the account for the merchandise sold to the post exchange amounting to $417.52; it then became an *account payable* by the exchange.

The Liggett & Myers Tobacco Co., having now been paid the $117.52 by the exchange, must be *debited* in their account in the *petty ledger* with the amount; and since it was an *account payable* by the exchange, a similar *debit* entry must be made in the *cashbook journal* opposite the Liggett & Myers Tobacco Co.'s name, and under *accounts payable;* this *debit* entry now corresponds with the *cash credit* entry in the *cashbook journal.*

Paid Lock-Tight Safe Co. one month's rent on safe. (Voucher No. 3, check No. 3.)

Explanation.—Cash was paid out, and therefore the *cash account* in the *cashbook journal* was *credited* with that amount, the safe having been used for the purpose of securing money and reports. Therefore, the amount having been already posted on the *credit* side of the *cash account* as having been paid out, there must be a corresponding *debit* entry of the amount in the *accounts payable account* in the *cashbook journal.* The amount must also be entered on the *debit* side of the account of the Lock-Tight Safe Co. in the *petty ledger.*

DECEMBER 8

Received cash from steward with daily report amounting to $79.51, derived from the following sources: Merchandise sales, $74.13; barber, $5.38.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $79.51 cash received from the merchandise sales and the barber, because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $74.13, because the total amount of merchandise on hand was decreased that amount, and the *barber* account was credited with $5.38.

Paid Ward's Fudge Shop for invoice of December 4, less cash discount. (Voucher No. 4, check No. 4.)

Explanation.—Cash was paid out, therefore the *cash account* in the cashbook journal was *credited* with that amount.

An account with the Ward's Fudge Shop was opened in the *petty ledger* when the merchandise was received December 25, 1919. The company was then *credited* with the merchandise purchased by the exchange; it then became an *account payable* by the exchange until the bill was paid to Ward's Fudge Shop.

Ward's Fudge Shop's account in the *petty ledger* must now be *debited* with check No. 4 for the amount paid, or $65.86; there is still $1.34 more on the credit side of Ward's Fudge Shop's account in the petty ledger. Ward's Fudge Shop has allowed a discount of $1.34, in accordance with its terms of prompt cash payments, and the company has acknowledged payment of the bill *in full*, as follows: Check $65.86, discount allowed $1.34. The $1.34 must therefore be entered on the *debit* side of Ward's Fudge Shop's account in the *petty ledger* as interest and discount. Both the debit and credit side of Ward's Fudge Shop's account are now equal. The two entries—$65.86 cash, and $1.34 discount—which are under their proper headings on the *credit* side of the *cashbook journal* must now have a corresponding entry or entries on the *debit* side of the cashbook journal; therefore, the total amount $67.20 was *debited* to *accounts payable* in the *cashbook journal* because Ward's Fudge Shop's account in the *petty ledger*, being an *account payable*, was *debited* with that amount.

Purchased merchandise from Hamilton Hardware Co. invoiced at $34.29. (Invoice No. 14.)

Explanation.—The *merchandise account* in the *cashbook journal* was *debited* with $34.29 because it was increased by that amount of merchandise having been received by the post exchange.

An account with the Hamilton Hardware Co. was opened in the *petty ledger*, and they were *credited* with the $34.29; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *merchandise account*.

DECEMBER 9

Steward's daily report for to-day showed cash turned over to the exchange officer in the amount of $60.43, derived from the following sources: Merchandise sales, $52.90; barber, $3.14; fountain, $4.39.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $60.43 cash received from the sale of merchandise, because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $52.90, because the total amount of merchandise on hand was decreased thereby. The *barber* account in the *cashbook journal* was *credited* with $3.14; and the *fountain* account was *credited* with $4.39.

A pool table was donated to the exchange by the morale officer, valued at $150. (Memo. No. 3.)

Explanation.—As the pool table was donated to the post exchange by the morale officer it was taken up as a *gain*, and valued at $150; and since it was

not for sale, it was shown as *property;* the property account in the cashbook journal was therefore *debited* with having received the pool table at the value stated.

There must be a corresponding *credit* entry for the $150, therefore as the pool table was donated to the post exchange, the *loss and gain* account in the *cashbook journal* was *credited* with $150.

Bowling alleys were purchased from A. G. Spalding & Bros., invoiced at $214. (Invoice No. 15.)

Explanation.—The bowling alleys were taken up as *property* because they were purchased for use in the post exchange, and not for sale; the *property account* was therefore *debited.*

An account with A. G. Spalding & Bros., was opened in the *petty ledger;* they were *credited* with the purchase price of the bowling alleys, $214; the exchange owes A. G. Spalding & Bros. that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the accounts payable account was credited with the same amount.

DECEMBER 10

Received from steward, with daily report, cash totaling $98.41 from the following sources: Sales of merchandise, $64.13; barber, $3.13; fountain, $18.50; amusement rooms, $12.65.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $98.41 cash received because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $64.13, because the total amount of merchandise on hand was decreased thereby. The *barber account* was credited with $3.13; *fountain,* $18.50; *amusement rooms,* $12.65.

Issued to recruits in training merchandise valued at $96. (Memo. No. 4.)

Explanation.—The amount of merchandise issued to recruits must be charged to them under the caption bills receivable because they received merchandise on *credit* from the post exchange.

The merchandise account was credited with $96 because it was decreased by that much merchandise having been issued to recruits.

Purchased from Be Vier & Co. merchandise invoiced at $183.25. (Invoice No. 16.)

Explanation.—The *merchandise account* in the *cashbook journal* was *debited* with $183.25 because it was increased by that amount of merchandise having been received by the post exchange.

An account with Be Vier & Co. was opened in the *petty ledger,* and they were *credited* with the $183.25; it is therefore an *account payable,* and an entry must therefore be made on the credit side of the *accounts payable* account in the *cashbook journal* to correspond with the debit entry in the *merchandise account.*

Paid Home Fire Insurance Co. one year's premium in advance on insurance policy, $40. (Voucher No. 5, check No. 5.)

Explanation.—Cash was paid out, and therefore the *cash account* in the *cashbook journal* was *credited* with the amount, $40. The post exchange was insured for a certain sum for which a yearly premium of $40 was paid.

The $40 yearly premium on the policy was paid in advance by the exchange, and is shown in the *cashbook journal* as an *account receivable* for reasons as follows: If the policy was discontinued by the exchange in the meantime the insurance company would only retain so much of the $40 paid in advance as would cover the period from the date the policy was taken up until the date it was dropped. For purpose of illustration it will be assumed that the policy was discontinued by the exchange after one month; the insurance company would therefore only deduct one-twelfth of the $40 for the month for which the insurance was carried by the exchange; this would, for the first month, amount to $3.33; the balance, $36.67, would be refunded by the insurance company to the exchange, and therefore the $36.67 would be carried in the petty ledger as an *account receivable* by the exchange until such time as the insurance company would refund the money.

Paid drayage on bowling alleys, $4.96 to John Doe. (Voucher No. 6, check No. 6.)

Explanation.—The *cash account* in the *cashbook journal* was *credited* with $4.96, because cash was paid out. The *property account* in the *cashbook journal* was *debited* with $4.96, because the cost price of the *property* was increased by that amount.

It is decided to operate a lunch counter which will be operated on the responsibility of the exchange. Equipment invoiced at $48.25 was purchased from the Restaurant Equipment Co. (Invoice No. 17.)

Explanation.—The restaurant equipment was taken up as *property* because it was purchased for use in the post exchange, and not for sale; the *property* account was therefore *debited*. An account with the Restaurant Equipment Co. was opened in the *petty ledger;* they were *credited* with the purchase price of the equipment, $48.25. The post exchange *owes* the Restaurant Equipment Co. $48.25, therefore this amount is *credited* to *accounts payable* in the *cashbook journal.*

Foodstuffs, etc., were purchased from the National Grocery Co. costing $47.86. (Invoice No. 18.)

Explanation.—The foodstuffs were purchased to be sold in the lunch counter, therefore, they were *debited* to the *lunch counter* account. An account was opened in the petty ledger with the National Grocery Co. and they were *credited* with the amount $47.86. This amount, $47.86 is also *credited* to *accounts payable* in the *cashbook journal,* as the post exchange *owes* the National Grocery Co. this amount.

DECEMBER 11

Steward's daily report showed cash turned over to the exchange officer in the amount of $136.14 derived from the following sources: Merchandise sales, $98.18; barber, $1.25; fountain, $16.48; amusement rooms, $9.25; lunch counter, $10.98.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $136.14 cash received because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold $98.18, because the total amount of merchandise on hand was decreased thereby. The *barber* account was *credited* with $1.25; *fountain*, $16.48; *amusement rooms*, $9.25; *lunch counter*, $10.98.

Sold to Capt. John Lamont merchandise on account, amounting to $10.50. (Memo. No. 5.)

Explanation.—Capt. John Lamont's account is an *account receivable* and this account is *debited* in the *cashbook journal*. Captain Lamont's account in the *petty ledger* must be *debited* with $10.50, because he received merchandise. A corresponding *credit* entry must therefore be made in the *cashbook journal* opposite Captain Lamont's name and under the heading *merchandise*, as the *merchandise account* was decreased by that much merchandise having been sold to Captain Lamont.

Returned to Mavis Bottling Co. merchandise (empty containers) valued at $6.50. (Memo. No. 6.)

Explanation.—The containers were originally taken up as *merchandise* when the consignment of sodas was received by the post exchange, because the Mavis Co., included in their bill for the sodas, the value of the containers ($6.50), therefore the *merchandise account*, having received the containers as *merchandise*, was *debited* with the $6.50; and as they are now being returned to the Mavis Co., a *credit* entry of $6.50 must be made in the *merchandise account* showing their return to the Mavis Co.

There must be a corresponding *debit* entry for the $6.50, and as this amount was included in the liabilities of the exchange, an entry was made on the *debit* side of the *cashbook journal* under *accounts payable*. The Mavis Co.'s account in the *petty ledger* must also be *debited* with the $6.50.

It is decided that for the convenience of the married men of this command, the post exchange will hereafter purchase bread from the commissary to be sold under the following conditions: 3 cents a loaf to be paid, to the commissary for each loaf delivered, 1 cent to be paid to the post baker for each loaf sold by the exchange. Bread is to be sold at 5 cents a loaf. The exchange is to be billed at the end of each month for the total cost of bread furnished by the commissary.

DECEMBER 12

Received with steward's daily report cash amounting to $143.96, received from the following sources: Sale of merchandise, $102.18; barber, $1.88; fountain, $10.15; amusement rooms, $11.25; lunch counter, $9.85; bread, $8.65.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $143.96 cash received because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $102.18, because the total amount of merchandise on hand was decreased thereby. The *barber* account was *credited* with $1.88; the *bread* account, with $8.65; the *amusement rooms*, with $11.25; the *fountain*, with $10.15; the *lunch counter*, with $9.85.

Paid Remington Rand (Inc.), for invoice of the 2d, $75. (Voucher No. 7, check No. 7.)

Explanation.—$75 cash was paid out, therefore the *cash account* in the *cashbook journal* was *credited* with that amount.

An account with Remington Rand (Inc.) was opened in the *petty ledger* when the merchandise was received December 2, 1919. The company was then *credited* with the merchandise purchased by the exchange amounting to $75; it then became an *account payable* by the exchange until the bill was paid to the Remington Rand (Inc.). The Remington Rand's account in the *petty ledger* must now be *debited* with check No. 7 for $75, and the *accounts payable* account in the *cashbook journal* debited for the same amount.

Received from Capt. John Lamont, merchandise returned by him in the amount of $4.25. (Memo. No. 7.)

Explanation.—$4.25 worth of merchandise having been returned to the post exchange the amount of merchandise on hand was therefore increased that amount, and therefore the *merchandise account* was *debited* accordingly.

The *accounts receivable* account in the *cashbook journal* was *credited* with $4.25, because Capt. John Lamont was *credited* in his account in the *petty ledger* with having returned the merchandise.

Paid Pennsylvania Railroad Co., freight on merchandise, $1.46. (Voucher No. 8, check No. 8.)

Explanation.—The *cash account* in the *cashbook journal* was *credited* with $1.46, because cash was paid out. The *merchandise account* in the *cashbook journal* was *debited* with $1.46, because the cost price of the merchandise was increased by that amount.

Received from Capt. John Lamont check for $6.25 in payment of balance of his account. (Memo. No. 8.)

Explanation.—The *cash account* in the *cashbook journal* was *debited* with $6.25, because cash was received, and since there must be a corresponding *credit* entry, the $6.25 was entered on the *credit* side of the *accounts receivable* account in the *cashbook journal*, because the total of the *accounts receivable* account was decreased $6.25 upon receipt of that amount from Captain Lamont.

In addition to the entries made as indicated in the *cashbook journal*, Captain Lamont's account in the *petty ledger* must also be credited with the amount he paid, $6.25, thus balancing and closing his account.

Paid commissary for ice used in the soda fountain, $1.98. (Invoice No. 19, voucher No. 9, check No. 9.)

Explanation.—The *fountain* account was *debited* with the amount, $1.98, when the invoice was received from the post commissary. An account was opened with post commissary in the *petty ledger* when the ice was received; it is therefore an *account payable*, and a *credit* entry must be made in the *accounts payable* account of the *cashbook journal*. Cash was paid out; therefore the *cash* account in the *cashbook journal* must be *credited*. The post commissary, having now been paid the $1.98 by the exchange, must be *debited* in their account in the *petty ledger*

with the amount; and since it was an *account payable* by the exchange, a similar *debit* entry must be made in the *cashbook journal* opposite the post commissary's name, and under *accounts payable.* This *debit* entry now corresponds with the cash *credit* entry in the *cashbook journal.*

Donated cash to a smoker for enlisted men in amount of $25. (Voucher No. 10, check No. 10.)

Explanation.—The *amusement account* in the *cashbook journal* was *debited* with $25 because it received that amount for disposal toward amusements. The *cash account* was decreased by that amount and therefore was *credited* in the *cashbook journal* with having donated it to amusements.

Paid postage on returned merchandise, $0.46. (Cash payment, voucher No. 11.)

Explanation.—The *cash account* in the *cashbook journal* was *credited* with 46 cents, because cash was paid out. The *expense account* in the *cashbook journal* was *debited* with 46 cents, because the postage was an *expense* incident to the conducting of the business of the exchange.

DECEMBER 13

The steward's daily report for to-day showed cash turned over to the exchange officer of $131.90, which was received from the following sources: Merchandise sales, $103.40; barber, $1.72; bread, $7.50; amusement rooms, $8.15; fountain, $5.13; lunch counter, $6.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with $131.90 cash received, because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold $103.40, because the total amount of merchandise on hand was decreased thereby. The *barber* account was *credited* with $1.72; the *bread* account, with $7.50; the *amusement rooms* account, with $8.15; the *fountain* account, with $5.13; the *lunch counter* account with $6.

Charged against the account of Elmer Bennett, exchange clerk, $0.75, selling price of merchandise carelessly destroyed. (Memo. No. 9.)

Explanation.—Bennett's account as a clerk is carried in the *petty ledger* as an *account payable.* The 75 cents is to be deducted from his salary at the end of the month; he was therefore debited or charged in his account in the *petty ledger* with having received that amount towards his month's salary; therefore, on the *debit* side of the *cashbook journal,* opposite Elmer Bennett's name and under *accounts payable,* entry of the 75 cents must be made. A corresponding credit entry of the 75 cents was made in the *merchandise account,* because the bottles were carried as merchandise.

Bill of Private James M. Clark, contracted on December 10, $2.25, dropped as a loss when Private Clark died, being indebted to the Government. (Memo. No. 10.)

Explanation.—Clark's account was dropped from the list of *bills receivable* in the *petty ledger* as a loss; the *bills receivable* account in the *cashbook journal* was therefore credited with $2.25, and since there must be a corresponding debit entry, and the amount being a loss through being dropped as uncollectible, the *loss and gain* account in the *cashbook journal* was *debited* with the same amount.

Sold to Adams Junk Co., empty containers and boxes for $2.50. (Memo. No. 11.)

Explanation.—The *cash account* in the *cashbook journal* was *debited* with $2.50, because cash was received. The cash received on the sale of the empty boxes was a *gain*, because the exchange was not charged for the boxes by the firm; the *loss and gain* account in the *cashbook journal* was therefore *credited* with that amount.

Merchandise valued at $4.16, cost price, was spoiled when a water pipe burst, and had to be thrown out. (Memo. No. 12.)

Explanation.—The amount of merchandise on hand in the exchange was decreased, and therefore the *merchandise account* in the *cashbook journal* must be *credited* with having disposed of stock amounting to $4.16. The $4.16 spoiled stock was *debited* to *loss and gain* in the cashbook journal because it was not fit for sale or use in the post exchange.

Sold to First Lieut. J. J. Brown, on credit, merchandise in the amount of $5.95. (Memo. No. 13.)

Explanation.—Lieutenant Brown's account is an *account receivable*, his account in the *petty ledger* must be *debited* with $5.95, because he received merchandise on credit from the post exchange. The *accounts receivable* account in the *cashbook journal* must also be debited with this amount. Corresponding *credit* entries totaling $5.95 must therefore be made in the *cashbook journal* opposite Lieutenant Brown's name, and under the proper headings, as follows: Merchandise, $5.95. The *merchandise account* was *credited* with $5.95; because it was decreased by that much merchandise having been sold to Lieutenant Brown.

Paid Hamilton Hardware Co., for invoices of the 4th, $96.25, and the 8th, $34.29. Less cash discount of $2.89. (Voucher No. 12, check No. 11.)

Explanation.—$127.65 cash was paid out, therefore the *cash account* in the *cashbook journal* was credited with that amount. An account with the Hamilton Hardware Co., was opened in the *petty ledger* when the merchandise was received. The company was then *credited* with the merchandise purchased by the exchange amounting to $130.54; it then became an *account payable* by the exchange until the bill was paid to the Hamilton Hardware Co.

The Hamilton Hardware Co.'s account in the *petty ledger* must now be *debited* with check No. 11 for $127.65; there is still $2.89 more on the credit side of the Hamilton Hardware Co.'s account in the petty ledger. The Hamilton Hardware Co. has allowed a discount of $2.89, in accordance with its terms on prompt cash payments, and the company has acknowledged payment of the bill *in full*, as follows: Check $127.65, discount allowed $2.89. The $2.89 must therefore be entered on the *debit* side of the Hamilton Hardware Co.'s account in the *petty*

ledger as interest and discount. Both the debit and credit side of the company's account are now equal. The two entries—$127.65 cash, and $2.89 discount—which are under their proper headings on the credit side of the *cashbook journal* must now have a corresponding entry on the *debit* side of the *cashbook journal;* therefore the total amount, $130.54, was *debited* to *accounts payable* in the cashbook journal because the Hamilton Hardware Co.'s account in the *petty ledger* being an *account payable*, was *debited* that amount.

Merchandise in stock was transferred to property. Cost value $15. (Memo. No. 14.)

Explanation.—As merchandise was transferred from the *merchandise account* to the *property account*, credit must be taken in the *merchandise account* in the *cashbook journal* for the amount so transferred, which in this instance amounted to $15; therefore on the credit side of the *merchandise account* the same value, $15.00, is entered as having been transferred to the *property account.* There must be a corresponding *debit* entry for this amount, and therefore the *property account*, having received this amount of merchandise, is *debited* with it accordingly in the *cashbook journal*, as it increased the value of the *property* on hand.

Returned goods to A. G. Spalding & Bros., because of a defect in material just discovered, $9.45. (Memo. No. 15.)

Explanation.—The goods were originally taken up as merchandise when the consignment was received by the post exchange, and as they are now being returned to A. G. Spalding & Bros., a credit entry of $9.45 must be made in the *merchandise account* showing their return to A. G. Spalding & Bros. There must be a corresponding *debit* entry for the $9.45, and as this amount was included in the liabilities of the exchange, an entry was made on the *debit* side of the *cashbook journal* under *accounts payable.* A. G. Spalding & Bros. account in the *petty ledger* must also be debited with the $9.45 (the value of the goods returned to them).

Office supplies were taken from stock for use in the post exchange. Cost value $2.65. (Memo. No. 16.)

Explanation.—As merchandise was taken from stock for use in the exchange, *expense* must be *debited* with this amount, $2.65, and the *merchandise account* is *credited* in a like manner for merchandise used.

Purchased for amusement rooms, a victrola from the Victor Phonograph Co., invoiced at $215. (Invoice No. 20.)

Explanation.—The victrola was taken up as property because it was purchased for use in the amusement rooms, and not for sale; the *property account* was therefore *debited.* An account with the Victor Phonograph Co., was opened in the *petty ledger;* they were *credited* with the purchase price of the victrola, $215; the exchange owes the Victor Phonograph Co. that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the *cashbook journal*, the *accounts payable* account was credited with the same amount.

Received bill from the American Electric Co. for electricity used in the barber shop, to and including December 10, $8.40. (Invoice No. 21.)

Explanation.—An account with the American Electric Co. was opened in the *petty ledger*, and they were *credited* with the $8.40; it is therefore an *account payable*, and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry made in the *barber* account.

Pressing machine was repaired by the Hoffman Pressing Machine Co. at a cost of $6.25. (Invoice No. 22.)

Explanation.—The repair made to the pressing machine does not increase the value of the machine, therefore *expense* must be *debited* with $6.25 and *accounts payable* must be *credited* with a like amount to record the increase in liabilities. The account of the Hoffman Pressing Machine Co. in the *petty ledger* must be *credited* with this amount.

Purchased an old sewing machine at auction from the Old Furniture Co., which is to be used to trade in on a new one. Cost $5.90. (Invoice No. 23, voucher No. 13, check No. 12.)

Explanation.—The sewing machine was taken up as property because it was purchased for use in the post exchange, and not for sale; the *property account* was therefore *debited.* An account with the Old Furniture Co. was opened in the *petty ledger;* they were *credited* with the purchase price of the sewing machine, $5.90; the exchange owes the Old Furniture Co. that amount; it is therefore an *account payable* by the exchange, and since there must be a corresponding *credit* entry in the cashbook journal, the *accounts payable* account was credited with the same amount.

The Old Furniture Co., having now been paid the $5.90 by the exchange, must be *debited* in their account in the *petty ledger* with the amount; and since it was an *account payable* by the exchange, a similar *debit* entry must be made in the *cashbook journal* opposite the Old Furniture Co.'s name, and under *accounts payable.* Cash was paid out, therefore the *cash* account in the *cashbook journal* must be *credited.*

DECEMBER 31

Received with steward's daily report cash amounting to $187.94, derived from: Merchandise sales, $132.48; barber, $1.76; tailor, $20; bread, $4.80; amusement rooms, $12; fountain, $8.75; lunch counter, $8.15.

Explanation.—The *cash account* in the *cashbook journal* was *debited* with the $187.94 cash received because it increased the cash on hand that amount. The *merchandise account* in the *cashbook journal* was *credited* with the amount of merchandise sold, $132.48, because the total amount of merchandise on hand was decreased thereby.

The *barber* account was *credited* with $1.72; the *tailor* account, with $20; the *bread* account, with $4.80; the *amusement rooms* account, with $12; the *fountain* account, with $8.75; the *lunch counter* account, with $8.15.

Paid salaries of attendants as follows:

J. G. Gordon (steward)	$25	(voucher No. 14, check No. 13)
Wm. Collins (bookkeeper)	15	(voucher No. 14, check No. 14)
Elmer Bennett (clerk)	14.25	(voucher No. 14, check No. 15)

Explanation.—The post-exchange steward gave his services to the exchange, i.e., the post exchange received the services of the steward; therefore the steward must be *credited* with $25 under *accounts payable* for these services, so a personal account in the *petty ledger* is opened with the steward. He is first given *credit* for his services on the *credit* side of his account in the *petty ledger;* his account therefore becomes an *account payable* and the transaction must also be shown on the *credit* side of the *cash book journal* opposite the steward's name, and in the *accounts payable* column. As this amount is an additional expense toward the operation of the exchange, the *expense account* is therefore *debited* in the *cashbook journal* with $25. At the end of the month the steward was paid for his services, and the cash was paid out; the *cash account* in the *cashbook journal,* opposite Gordon's name, was credited with the $25. There must be a corresponding *debit* entry of $25 in the *cashbook journal,* so the *accounts payable* account, opposite Gordon's name, was *debited* with the same amount. The steward having received the cash, is also *debited* in his account in the *petty ledger* with same. This also applies to the bookkeeper and the clerk. The records are handled in the same way for the payments to Wm. Collins (bookkeeper) and Elmer Bennett (clerk) except that in the case of Elmer Bennett the *accounts payable* account of the *cashbook journal* and also his account in the *petty ledger* is *credited* with $15, the full month's salary and the *expense* account is *debited* for the same amount. As Elmer Bennett's account in the *petty ledger* has already been *debited* for 75 cents for the breaking of bottles, he is paid only $14.25 and is *credited* with this amount in the *petty ledger.* The *cash account* in the *cashbook journal* is *credited* and the *accounts payable* account is *debited,* for this amount.

Credited Home Fire Insurance Co. with portion of insurance premium applicable to current month, $3.33. (Memo. No. 17.)

Explanation.—The Home Fire Insurance Co. is carrying a certain amount of insurance for the exchange at $40 per year on the policy at the rate of $3.33 monthly for 11 months and $3.37 for the twelfth month; therefore an account for the Home Fire Insurance Co. was opened in the *petty ledger;* on the *credit* side of this account the $3.33 for the first month was entered, because the insurance company must be given *credit* for the amount which would ordinarily become due them at the end of the month if the premium had not been paid in advance by the exchange. The $3.33 was included in the $40 shown as an *account receivable* to the exchange as of date January 6 and therefore the *accounts receivable* are now reduced this amount, as the insurance company on January 31 would only owe the exchange $36.67 if the exchange had decided to drop the policy on that date. The *accounts receivable* account is accordingly *credited* and the *expense* account is *debited* for this amount.

Received credit from depository for interest on bank balance, $1.82. (Memo. No. 18.)

Explanation.—The bank added to the exchange account on their books the amount of $1.82 as interest due the exchange on total amount deposited to date; and since the bank has increased the amount on deposit in the bank belonging to the exchange, it is equivalent to cash having been received; therefore the *cash account* in the *cashbook journal* was *debited* with the $1.82, and since there must

be a corresponding *credit* entry, and the amount received being interest on money on deposit in the bank, the *interest and discount* account in the *cashbook journal* was *credited* with $1.82.

The property was appraised and depreciation of $14 is estimated to have taken place. (Memo. No. 19.)

Explanation.—Property having depreciated in value to the amount of $14, there was that much of loss to the post exchange; the present worth was reduced that amount; therefore the *loss account* was increased by $14 and was *debited* with the same in the *cashbook journal.* The *loss and gain* account having now been *debited* with the $14, there must be a corresponding *credit* entry in the *cashbook journal;* the *property account* was therefore *credited.*

Was allowed $10.50 for old sewing machine on purchase of a new machine from Singer Sewing Machine Co., valued at $140. (Invoice No. 24.)

Explanation.—Property must be debited with the value of the new machine or $140 and *accounts payable* credited with $140 less $10.50 allowed on the old machine, or $129.50. It is necessary to credit the *property* account with $5.90, or the value of the sewing machine, on retirement and credit loss and gain for profit made on the transaction, or $4.60.

Received telephone bill from Chesapeake & Potomac Telephone Co., $4.75. (Invoice No. 25.)

Explanation.—An account with the Chesapeake & Potomac Telephone Co. was opened in the *petty ledger,* and they were *credited* with the $4.75; it is therefore an *account payable,* and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* made in the *expense* account.

Post commissary submits bill for bread furnished during the month, $12.57. (Invoice No. 26.)

Explanation.—The *bread account* in the *cashbook journal* was *debited* with $12.57 because it was increased by that amount of bread having been received by the post exchange. The account with the post commissary was credited with the $12.57; it is therefore an *account payable* and an entry must therefore be made on the credit side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* entry in the *bread account.*

Half of net profit realized on sale of bread credited to Ralph Smith, post baker, $4.19. (Invoice No. 27.)

Explanation.—An account with Ralph Smith (post baker) was opened in the *petty ledger,* and he was *credited* with $4.19; it is therefore an *account payable,* and an entry must therefore be made on the *credit* side of the *accounts payable* account in the *cashbook journal* to correspond with the *debit* made in the *bread* account.

Footing the cashbook journal.—After the last entry for the month has been made in the cashbook journal the columns are then footed. The totals of each column should be entered in red ink on the bottom line of horizontal ruling, this

applies whether or not all of the lines of the sheet are filled. Where there are more than one cashbook journal sheet, as there usually are, the footings are carried forward in red ink and entered on the first line of the succeeding page. The totals of the columns should be cross-footed—that is, all of the debit totals and all the credit totals should be added. The grand totals of debits and credits should be the same. This signifies that the sheet is in balance as regards debits and credits but it does not prove the accuracy of all the entries.

Verifying entries.—An additional precaution to insure accuracy is that of verifying all entries made each day.

This may be accomplished by first inspecting the entry of steward's daily reports to see that cash is debited with the total amount involved, and that merchandise and the other forms of income are credited to the proper columns.

Next the invoices should be taken up for verification. Every invoice should be credited to accounts payable and debited to the proper column indicating the nature of the invoice. Be sure that the number of each invoice is properly recorded in the column provided for that purpose.

In verifying the voucher entries the debits to accounts payable and credits to cash should be noted. This verification will depend, of course, upon the specific system in use.

The general plan of verification consists merely of a recheck on the entries to verify the posting to the proper columns. It is very important that entry be made in the correct column for an entry posted in the wrong column will not be detected by a verification of the equality of debits and credits, and an error of this nature will often materially affect the financial condition shown by the books. Suppose, for example, that in entering the information shown by the steward's daily report the amount of merchandise sales was entered in the accounts payable column instead of the merchandise column. An error of this kind will not effect the equilibrium of the journal but it causes the merchandise sales to be understated and the accounts payable to be overstated.

PETTY LEDGERS

Arrangement of accounts.—The ledger accounts in the petty ledger should be grouped into accounts payable and accounts receivable. Both of these groups may be kept in the same binder, but if the accounts are numerous separate binders should be kept for each. As to the arrangement of the accounts in each group there are two methods which may be used. The first is to place all accounts alphabetically according to surnames. The ledgers should be of the loose-leaf variety, thereby making possible the removal of old sheets and placing of new sheets therein. Tabs placed on guide sheets at proper places in the ledger serve to divide accounts into the alphabetical classification, thereby making for easy reference. The ledger account should appear after the tab bearing the designation. For instance all ledger accounts beginning with "A" such as Abbot, Amot, and Arnold, should appear in that order after the "A" tab.

Another method of ledger arrangement is that of numbering the accounts in the order in which they are entered in the cashbook journal without regard to alphabetical classification. For instance, the first personal account appearing in the cashbook journal of a new exchange might be Jones, in which event this

account in the petty ledger would be designated account No. 1, the second one to appear would be account No. 2, etc. When this system is in use it becomes necessary to prepare a ledger index which serves as a key to the accounts in the ledger. This ledger index consists of a list of the names of the account in the ledger arranged alphabetically with the number of the account indicated. When access to a ledger account is desired it becomes necessary to first consult the index to find on which page the particular account sought is located. This system is known as the indirect reference system, while the method of arranging ledger accounts alphabetically is called the direct system. The direct reference system is considered best adapted to this type of work and it should be employed wherever possible because of the simplicity of arrangement and the ease with which accounts may be found.

Form of account.—The usual form of petty ledger account is divided into two sections. The section on the left side of the sheet receives the debits and the right-hand section receives the credits. Each section is provided with two narrow columns for dates. The month is to be entered in the first column and the day of the month in the second. The wide blank column is reserved for explanation of the transaction recorded. The narrow column on the left of the money column serves as a reference column in which is recorded the number of the business paper evidencing the transaction. Some sheets carry an extra column on the right of the reference column in which the post exchange council may place its check mark when that posting has been verified at the monthly audit. The money columns are of course provided to receive the amount of posting.

A ledger account should be opened for every individual with whom the exchange does business.

Posting to the petty ledger.—The petty ledger should be posted daily from the cashbook journal. Remember that posting is done from the controlling account columns. All amounts appearing in the accounts payable column on the credit side should be posted as credits to accounts in the accounts payable section of the petty ledger, while all amounts entered in the debit column of accounts payable are proper debits to the various petty ledger accounts. Debit items in the accounts receivable column should be posted as debits in accounts appearing in the accounts receivable section of the petty ledger. Credits to accounts receivable as indicated by the column bearing that caption in the cashbook journal should be posted as credits to the proper petty ledger accounts.

When posting to the petty ledger accounts the year, month, and day on which the transaction occurred should be entered in the space provided for this purpose. The year is placed at the top of the column provided for months. If more than one entry is required in an account during a given month, it is not necessary to write the name of the month again.

In case of credits to accounts payable accounts the explanation should show the nature of the invoice such as merchandise, expense, or property. The *number of the invoice* as shown by the cashbook journal is recorded in the *reference column.* Debits to accounts payable accounts are explained as cash discount or returned merchandise, as the case may be, and the check *number*, or memorandum number is placed in the *reference column.*

Accounts receivable debits posted from the cashbook journal should indicate in the explanation column of the account the nature of the sale, and in the reference column the number of the original business paper, if there be one. Credits in accounts receivable accounts should show in the explanation column the nature of the credit, such as cash payment, or returned merchandise. The reference column carries the number of the memorandum or voucher.

The personal transactions recorded in the cashbook journal previously shown will not be posted to the various petty ledger accounts. Note the separation of the accounts payable accounts and the accounts receivable accounts. When an entry has been posted from the cashbook journal it is advisable to place some distinguishing mark opposite the cashbook journal entry in the folio column to indicate that it has been posted to the petty ledger account. A check mark such as (√) may be used for this purpose where the accounts were arranged alphabetically. Where accounts were arranged numerically the number of the account to which the entry was posted should be entered in the folio column.

The cashbook journal written up from the transactions given on pages 3 to 9, inclusive, is shown here. Each transaction should be checked against the entry in the journal. Be sure that you understand the method of making the journal entry.

When the journal postings have been examined, study the manner of posting the personal transactions from the journal to the petty ledger accounts.

Posting to the general ledger.—It was pointed out previously that the object of the cashbook journal was merely to classify and analyze the business transactions to facilitate posting to the general ledger. Therefore when all the transactions have been entered in the cashbook journal it has served its purpose in this regard. The next step in compiling the accounting records is to transfer the data furnished by the cashbook journal to the accounts in the general ledger.

The general ledger receives posting from the journal only at the end of the accounting period. All entries in the general ledger are made from the books of original entry except closing entries for the ledger, which will be explained later. Remember that the petty ledger is posted *daily* and the general ledger is posted *monthly.*

Since the columns of the cashbook journal represent specific accounts in the general ledger, posting merely resolves itself into the transfer of these totals to the proper accounts.

There is very little difference between the method of posting to the general ledger as compared with posting to the petty ledger. The principles are identical, but there is a slight variation in the technique. The total to be posted to the ledger account represents all the transactions affecting the debit or the credit side of the account in question. Only one posting is required on one side of an account, though there may be both debits and credits in some of the accounts.

When the total of the cashbook journal is posted to the general ledger account, the day of the month on which posting is made should be entered in the space provided for this purpose. This date will be the last day of the accounting period unless it happens to be Sunday, or some legal holiday. The explanation column should bear the designation (C. B. J.), to indicate that the posting was made from that source. No other explanatory data need be furnished as this in itself

shows that the entry came from the last page of the cashbook journal for the month. The amount is, of course, entered in the column provided.

After the information has been properly recorded in the ledger account, the number of that account should be noted under the total of the cashbook journal column which was just posted. This gives a form of reference which is very desirable, as anyone wishing to trace a posting from the journal into the ledger can readily see what account to consult.

The general ledger accounts as they would appear after receiving the postings from the cashbook journal are shown herewith.

CLOSING THE GENERAL BOOKS

We will now take the general ledger accounts shown in the preceding pamphlet and illustrate the method of closing the accounts for the purpose of preparing the financial statements at the end of the fiscal period. When all of the columns of the cashbook journal have been posted to the proper accounts in the general ledger the books are ready to be "closed."

Closing the books consists of the following definite steps, each one of which should be completed before taking up the next one:

1. Prepare a trial balance.
2. Prove the correctness of the subsidiary ledgers.
3. Compare cash balance with that shown by the exchange officer's blotter.
4. Enter inventories in the accounts affected.
5. Close balances of income accounts into loss and gain account.
6. Close balances of loss accounts into loss and gain account.
7. Close net gain or loss as shown by the loss and gain account into the exchange account.
8. Enter all assets and liabilities in the balance account.
9. Compare net worth as shown in balance account with that shown in the exchange account.
10. Rule the petty ledger accounts that balance.
11. Bring down any balances in the petty ledger accounts below the ruling unless there is only one entry in the account.
12. Foot and rule the nominal accounts in the general ledger.
13. Foot and rule the real accounts in the general ledger.
14. Bring down any balances in the real accounts below the ruling.
15. Prepare balance sheet for month.

TRIAL BALANCE

The first step in preparing to close the books is to prepare a trial balance.

A trial balance is a list of names of general ledger accounts, written usually in the order in which the accounts appear in the ledger, exhibiting the total of current postings to both the debit side and the credit side of each account. The debit amounts are listed in the first column and the credit amounts in the second. If the total of the two columns of a trial balance agree, the ledger is said to be "in balance"; otherwise it is said to be "out of balance." It is imperative that the ledger be kept in balance. If the trial balance discloses that the ledger is out of balance, the bookkeeper knows that he has made a mistake somewhere and should look for the error until he finds it.

Do not form the impression that the bookkeeping records are absolutely correct merely because the two columns of the trial balance are equal. A trial balance does *not* insure accuracy in every respect. The fact that a trial balance shows equal debits and credits only indicates that for every debit made upon the books there has been a credit in the same amount. There may be errors in posting to the wrong account. For instance, expense may have been debited with an amount

which should have been debited to amusements. An error of this nature would not be disclosed by a trial balance, since the total debits are correct, but the expenses would be overstated while the amusements would be understated.

The general ledger accounts which we will consider here are duplicates of the accounts built up in the preceding pamphlet. You are to study these accounts only as directed. Do not try to understand them until you have read the material dealing with each step in their construction. If the student follows the instructions explicitly, little trouble will be experienced in the study of this important phase of post exchange accounting.

Account No. 1.

CASH

1928 Dec. 31	C. B. J		$1,298.98	1928 Dec. 31	C. B. J		$542.54
					Balance down		*756.44*
			1,298.98				1,298.98
1929 Jan. 1	Balance down		756.44				

Account No. 2.

MERCHANDISE

1928 Dec. 31	C. B. J		$861.22	1928 Dec. 31	C. B. J		$894.48
31	*L. & G.*	*17*	*321.20*	*31*	*Inventory*		*287.94*
			1,182.42				1,182.42
1929 Jan. 1	Inventory		287.94				

Account No. 3.

ACCOUNTS RECEIVABLE

1928 Dec. 31	C. B. J		$56.45	1928 Dec. 31	C. B. J		$13.83
					Balance down		*42.62*
			56.45				56.45
1929 Jan. 1	Balance down		42.62				

Account No. 4.

BILLS RECEIVABLE

1928 Dec. 31	C. B. J		$96.00	1928 Dec. 31	C. B. J		$2.25
					Balance down		*93.75*
			96.00				96.00
1929 Jan. 1	Balance down		93.75				

Account No. 5.

PROPERTY

1928 Dec. 31	C. B. J.		$1,160.91	1928 Dec. 31	C. B. J.		$19.90
					Balance down		*1,141.01*
			1,160.91				1,160.91
1929 Jan. 1	Balance down		1,141.01				

Account No. 6.

ACCOUNTS PAYABLE

1928 Dec. 31	C. B. J.		$491.59	1928 Dec. 31	C. B. J.		$2,456.21
	Balance down		*1,964.62*				
			2,456.21				2,456.21
				1929 Jan. 1	Balance down		1,964.62

Account No. 7.

EXCHANGE

				1928 Dec. 31	L. & G.	17	$401.89

Account No. 8.

AMUSEMENTS

1928 Dec. 31	C. B. J.		$41.00	1928 *Dec. 31*	*L. & G.*	*17*	*$41.00*

Account No. 9.

EXPENSE

1928 Dec. 31	C. B. J.		$131.69	1928 *Dec. 31*	*L. & G.*		*$131.69*

Account No. 10.

AMUSEMENT ROOMS

1928 *Dec. 31*	*L. & G.*	*17*	*$53.30*	1928 Dec. 31	C. B. J.		$53.30

Account No. 11.

INTEREST AND DISCOUNT

1928 *Dec. 31*	*L. & G.*	*17*	*$6.05*	1928 Dec. 31	C. B. J.		$6.05

Account No. 12.

BARBER

1928				1928			
Dec. 31	C. B. J		$8.40	Dec. 31	C. B. J		$18.26
31	*L. & G*		*9.86*				
			18.26				18.26

Account No. 13.

TAILOR

1928				1928			
Dec. 31	*L. & G*	*17*	*$20.00*	Dec. 31	C. B. J		$20.00

Account No. 14.

LUNCH COUNTER

1928				1928			
Dec. 31	C. B. J		$47.86	Dec. 31	C. B. J		$34.98
31	*L. & G*	*17*	*4.62*	*31*	*Inventory*		*17.50*
			52.48				52.48
1929							
Jan. 1	Inventory		17.50				

Account No. 15

FOUNTAIN

1928				1928			
Dec. 31	C. B. J		$71.98	Dec. 31	C. B. J		$63.40
31	*L. & G*	*17*	*18.67*	*31*	*Inventory*		*27.25*
			90.65				90.65
1929							
Jan. 1	Inventory		27.25				

Account No. 16.

BREAD

1928				1928			
Dec. 31	C. B. J		$16.76	Dec. 31	C. B. J		$20.95
31	*L. & G*		*4.19*				
			20.95				20.95

Account No. 17.

LOSS AND GAIN

1928				1928			
Dec. 31	C. B. J		$20.41	Dec. 31	C. B. J		$157.10
	Amusements	8	41.00		Merchandise	2	321.20
	Expense	9	131.69		Amusement rooms	10	53.30
	Exchange	7	*401.89*		Interest and discount	11	6.05
					Barber	12	9.86
					Tailor	13	20.00
					Lunch counter	14	4.62
					Fountain	15	18.67
					Bread	16	4.19
			594.99				594.99

Account No. 18.

BALANCE

1928				1928			
Dec. 31	Cash	1	$756.44	Dec. 31	Accounts payable	6	$1,964.62
	Merchandise inventory	2	287.94		*Exchange*	7	*401.89*
	Accounts receivable	3	42.62				
	Bills receivable	4	93.75				
	Property	5	1,141.01				
	Lunch counter inventory	14	17.50				
	Fountain inventory	15	27.25				
			2,366.51				2,366.51

NOTE.—Figures and explantions shown in italic should be written in red ink.

The trial balance prepared from the foregoing general ledger accounts would appear as follows:

Cash	$1,298.98	$542.54
Merchandise	861.22	894.48
Accounts receivable	56.45	13.83
Bills receivable	96.00	2.25
Property	1,160.91	19.90
Accounts payable	491.59	2,456.21
Exchange		
Amusements	41.00	
Expense	131.69	
Amusement rooms		53.30
Interest and discount		6.05
Barber	8.40	18.26
Tailor		20.00
Lunch counter	47.86	34.98
Fountain	71.98	63.40
Bread	12.76	20.95
Loss and gain	20.41	157.10
	4,303.25	4,303.25

Disregard all red ink entries in the accounts at this time (shown in italic in the printed specimen) as they are not to be considered in the trial balance.

Note that the debits and the credits are equal. Some of the accounts have postings on both debit and credit sides, while others have only one posting. The exchange account has as yet no amounts posted to it, but this is because we have chosen to illustrate the accounting records during the first month of operations. It normally has a credit balance which represents the net worth of the exchange.

In the model set the credit of $401.89 was entered after the books were closed.

PROVING THE CONTROLLING ACCOUNTS

Accounts receivable.—The first step to be taken after a trial balance has been prepared is to prove the accuracy of the amounts of accounts receivable, bills receivable, and accounts payable. In order to do this it becomes necessary to balance all accounts in the petty ledger. The accounts receivable account has a debit balance which is represented by the several individual accounts in the accounts receivable section of the petty ledger. All of the debit balances in the customers account when added together must equal the balance shown by the accounts receivable account on the general ledger. In some cases it will be found that one or more of the individual accounts shows a credit balance because of goods being returned by the customer after paying for them in full, or in case of overpayment on the part of the customer. When this condition prevails the total credit balances must be deducted from the total debit balances to arrive at the net amount as shown by the controlling account on the general ledger.

Bills receivable.—To prove the figure shown in the general ledger account as bills receivable, recourse must be made to the list which was prepared at the time of issuing the merchandise to the recruits. The total of the unpaid items appearing on that list should correspond with the balance shown in the bills receivable account.

Accounts payable.—The account captioned accounts payable on the general ledger is the controlling account for the accounts payable section of the petty ledger. It carries a credit balance representing the aggregate of the several credit balances appearing in the individual vendors' accounts. In order to prove the accounts payable balance, the credit balances of the individual accounts are computed and summed up and this total should equal the balance shown by the controlling account. In case of debit balances appearing in any of the individual accounts because of overpayments to one or more vendors, or because goods were returned subsequent to the account being paid in full by the exchange, the total of such debit balances or balance must be deducted from the total credit balances to arrive at the correct amount as shown by the accounts payable account in the general ledger.

TRACING ERRORS WHERE SUBSIDIARY LEDGERS DO NOT BALANCE WITH CONTROLLING ACCOUNT

Ordinarily it can be taken for granted that the balance shown by the controlling account is correct. If the petty ledger accounts are out of balance with the controlling account it is apparent that one or more errors have been made in posting from the cashbook journal to the petty ledger. This is true because

the more postings a bookkeeper has to make the more liable he is to err. Only two postings are required to transfer the cashbook journal figure to the general ledger, while there may be as many as a hundred or more individual postings to the petty ledger accounts. The postings to the controlling account must be correct—

1. If the transactions at the time of entry upon the journal are extended into the proper distribution columns.

2. If the column is correctly added.

3. If the total of the column as shown by the adding machine tape is correctly entered at the foot of the cashbook journal sheet.

4. And if the total shown by the journal is correctly posted to the controlling account.

When this verification of the postings to the controlling accounts has been made the error or errors in the petty ledger postings are determined as follows:

1. Glance through the accounts which have received entries during the current month and see that no entries have been made on the wrong side.

(*a*) In the case of accounts receivable we know that *sales are debits* and that the explanation column should show the nature of the sale. If an entry is made on the debit side of an account bearing the explanation "cash" it would readily be noted that this is an error, since *cash payments* are proper credits to accounts receivable. In a like manner verify each account. See that sales are debited and that *cash payments and merchandise returned are credited.*

(*b*) If accounts payable are being examined the correctness of postings to the proper side of each account may be determined by noting that *purchases are credits and that returned purchases and cash payments are debits.*

2. Determine the difference between the balance shown by the controlling account and the total of the petty ledger balances. See that no entries equaling this amount have been omitted when posting from the journal to the petty ledgers.

3. If either of the above tests are unsuccessful in locating the error or errors then the next step should be that of verifying each petty ledger posting from the cashbook journal.

(*a*) If accounts receivable are under examination then all amounts appearing in the accounts receivable money column of the journal should be traced into the individual accounts. Debits amounts should be checked against the debits in the ledger account first. Then verify the accuracy of each credit in the same manner.

(*b*) In verifying accounts payable check each amount appearing in the credit money column of the journal against the credit posting in the petty-ledger account. Then in a like manner compare the amounts in the debit column of the journal with the debits appearing in the individual account.

When procedure No. 3 is used the figures should be checked with a pencil as they are verified. Then when the examination has been completed if the error has not been located glance down the journal money column and see that each amount appearing there has been checked against a like figure in the ledger. This assures the examiner that all postings have been made. Then turn through the pages of the ledger and note that every current posting has been checked against an amount on the journal. Any figure which is not checked indicates that it was

erroneously posted twice, or that an entry was made in the account which did not originate in the cashbook journal. The error can then be corrected to bring the petty ledger into harmony with its controlling account.

In most cases all of the tests we have mentioned would not be required in order to locate an error. It could possibly be found with but very little trouble under ordinary circumstances.

The detail in support of the general ledger controlling accounts given in this lesson is shown to be correct from a summarization of the petty-ledger account balances as follows:

The controlling account balance of accounts receivable is $42.62 consisting of the following items:

First Lieut. J. J. Brown	$5. 59
Home Fire Insurance Co	37. 03
	42. 62

The accounts payable controlling account shows a credit balance of $1,964.62 represented by the following credit balances in the accounts payable section of the petty ledger:

American Electric Co	$8. 40
Be Vier & Co	183. 25
Chesapeake & Potomac Telephone Co	4. 75
Eaton, Crane & Pike Co	6. 75
Headquarters exchange officer	78. 00
Hoffman Pressing Machine Co	186. 05
Liggett-Meyers Tobacco Co	300. 00
Marine Corps fund	350. 00
Mavis Bottling Co	17. 50
National Grocery Co	47. 86
Post commissary	12. 57
Restaurant Equipment Co	48. 25
Singer Sewing Machine Co	129. 50
Ralph Smith (post baker)	4. 19
A. G. Spalding & Bros	261. 55
Underwood Typewriter Co	65. 00
Velvet Kind Ice Cream Co	46. 00
Victor Phonograph Co	215. 00
Total accounts payable	1, 964. 62

Since ledger accounts are not kept for bills receivable a summarization of the unpaid balances of the bills receivable schedule must be prepared. The total unpaid balances should amount to $93.75 as shown by the bills receivable account on the general ledger.

VERIFYING CASH

The balance of the cash account should be compared with the balance shown by the exchange officer's blotter. If both records show the same balance then it can be presumed that the amount of cash as shown by the cash account

is correct. If the balances do not agree then it is apparent that an error has been committed in making the entries and the records must be checked back to determine the cause of the discrepancy.

ENTERING INVENTORIES ON THE BOOKS

It was previously stated that an inventory is taken at the end of each business period in order to determine the value of the goods which were sold during the month. The procedure of taking inventories will be discussed in a succeeding pamphlet but it must be pointed out here that an inventory is a prepared list of goods showing the units on hand of the various classifications of merchandise. Each classification is valued at *cost* price and also at *selling* price. The total cost value of the inventory is computed by adding together the cost value of the various classifications. The total selling value of the inventory is computed in the same manner, except that selling values are used. Please bear in mind that we are only concerned with the inventory value at *cost* in so far as these books are concerned. The use to be made of the selling value of the inventory will be explained later.

To record the inventory on the books two entries must be made in the account concerned. The inventory is entered in *red ink* on the credit side of the account. This entry serves to reduce the amount to be accounted for. The difference between the debit total (which ordinarily includes the opening inventory plus the current purchases) and the amount of the inventory, constitutes the *cost of the goods sold.*

In the merchandise account in the model set it will be noted that the merchandise to be accounted for is $861.22, and the inventory is $287.94. This makes the cost of goods sold $573.28.

The lunch counter account shows current purchases of $47.86 which is partly accounted for by the $17.50 inventory on hand at the end of the month. The cost of goods sold is therefore $30.36.

The inventory of fountain products is found to be $27.25 which when deducted from the amount to be accounted for of $71.98 gives the cost of goods sold. In this case it is $44.73.

The inventory at the end of each period becomes the opening inventory for the next period, therefore this amount must be shown in the account where it will be reflected in the records of the *next succeeding* month. It is entered as a debit *below the line* where the total of the account will be written. This maintains the equilibrium of the ledger since both a debit and a credit are entered in the account. Study carefully the manner of recording the inventories in the model ledger accounts for merchandise, lunch counter, and fountain. These are the only accounts requiring adjustments for inventories.

CLOSING INCOME INTO LOSS AND GAIN ACCOUNT

The next step in closing the books is that of transferring the credit balances of *income* accounts to the credit side of the loss and gain account in the general ledger.

To accomplish this the debits and credits of an account are determined in instances where there is more than one entry on one side of an account. (This condition prevails only in the accounts which carry inventory adjustments.)

Ordinarily only one entry will appear on one side of an account. The excess of credits over debits in the account constitutes the net gain that has been realized from that activity. The merchandise account previously illustrated has credits of $1,182.42, which represents the sales for the month and the final inventory. The difference of $321.20 constitutes the net gain on merchandise. This is true because the goods *sold* only cost the exchange $573.28 and they were sold for $894.48.

The net gain shown by the account is entered on the debit side in *red ink* in order to make the total debits equal the total credits and thereby balance the account. To show that the profit is carried to the loss and gain account a notation "L. & G." should be made in the explanation column and the number of the loss and gain account should be entered in the reference column of the account. The gain is then entered on the *credit* side of the loss and gain account with a notation in the explanation column indicating the account from which the entry came. The number of the account from which the amount was posted is entered in the reference column.

The effect of this transfer is to close out the credit balance of the income account and to show this gain together with the several other sources of income in one account. Each income account in the general ledger is treated in the same manner. When all revenue-producing accounts have been closed into loss and gain the credit side of this account will show all of the profit realized from operations and the notations in the explanation column will indicate the business activity which contributed to the total profit for the month.

CLOSING LOSSES INTO LOSS AND GAIN ACCOUNT

Ordinarily there are only two accounts reflecting losses, the expense account and the amusements account. They carry debit balances which are transferred to the loss and gain account as debits in the same manner as income accounts are treated. The amount required to balance the account is entered in *red ink* on the credit side with the notation "L. & G." to indicate the account to which the balance is carried. The loss is carried to the debit side of the loss and gain account where the name of the account which produced the loss is entered in the explanation column. The number of the account to which the balance is transferred is placed in the reference column of the account being closed, and the number of the account from which the transfer came is placed in the reference column of the loss and gain account.

OPERATING ACCOUNTS

Operating accounts consist of those representing a phase of activity. For instance the merchandise account carries all merchandise transactions; the fountain account reflects the operations of this income producing element. Although these activities are conducted with a view to producing profit there may be instances where a loss will result instead. In case of a loss being reflected in one of these accounts the closing procedure would be the same as outlined for expense accounts.

The nature of the balance of nominal accounts always determines whether it has produced a loss or a gain. A credit balance indicates a gain while a debit balance shows that a loss has been suffered. Losses are always recorded as debits in the loss and gain account and gains are entered as credits.

Study the procedure involved in closing the nominal accounts into loss and gain in the model set. Note that *asset* and *liability* accounts are *not closed into loss and gain.*

NET GAIN OR LOSS

The balance of the loss and gain account shows the net gain or loss for the month. If the gains total more than the losses then it is apparent that a net gain has resulted and the account will have a credit balance. If, on the other hand, the losses total more than the gains the result is a net loss for the month and there is a debit balance in the loss and gain account.

CLOSING LOSS AND GAIN ACCOUNT INTO EXCHANGE

It was pointed out in preceding pamphlets that the exchange account represents the net worth of the post exchange. It is therefore plain, when we have determined that the net worth has changed during the month, and since the loss and gain account shows the amount of this change, that the balance of the loss and gain account must be closed into the exchange account in order to make the latter reflect the true net worth.

The balance of the loss and gain account is closed into the exchange account as follows: Determine the balance of the former and record this balance on the smaller side in *red ink*, indicating in the explanation column the name of the account to which this balance is carried—namely, exchange. Carry the amount of the balance in loss and gain account to the opposite side of the exchange account and enter it there in *black ink*, indicating in the explanation column the name of the account from which the balance was carried. The numbers of the accounts posted to and posted from should be entered in the reference columns of the loss and gain and exchange accounts, respectively.

Note the manner of closing the net gain for the month of December into the exchange account in the model set.

THE BALANCE ACCOUNT

The balance account is merely a summary account in which are *listed* the debit balances of asset accounts and the credit balances of liability accounts. Its object is to prove the accuracy of the exchange account. We know that the net worth is the difference between the amount of the assets and the amount of the liabilities. The balance account provides a place where the total assets and liabilities may be summarized for the purpose of determining the net worth. *All balances in asset accounts are written as debits and all balances of liability accounts are entered as credits.* The debit balance of this account then represents the net worth of the exchange. If the net worth as shown by the balance account is the same as that already appearing in the exchange account this is sufficient evidence that the books have been properly kept and that the net loss or gain carried to the exchange account was correct.

The net worth shown by this account is *not posted* to any other account. When the balance is found to be correct it is entered in *red ink* on the credit side of the account and both sides are footed.

Study the balance account illustrated in the model set. Note particularly that the balances of the asset and liability accounts are not closed into the balance account in the same manner as the expense and income accounts are closed into

loss and gain. The real account balances stand on the books where they will be reflected in the succeeding month's operations while the nominal accounts are all closed.

The inventories are shown in the balance account because they are assets, although they appear in nominal accounts whose balances were closed into loss and gain.

Note the manner of cross reference among accounts by means of account numbers placed in the reference columns.

RULING ACCOUNTS

When the nominal accounts have been closed into loss and gain and the balance further transferred to the exchange account, and when the balance account has been found to agree with the net worth as shown in the exchange account, the ledger accounts are ready to be ruled.

Ruling the petty ledger accounts.—All accounts that balance are ruled with a double line to indicate that all entries above such ruling need not be considered in the financial statements. Any account having more than one entry on either side should be footed unless it can be seen at a glance that the debits and credits are equal.

If the debits and credits of an account are not equal, and from an inspection of the account the balance thereof is not apparent at a glance, the balance should be entered in *red ink* on the smaller side and then brought down in *black ink* on the opposite side of the account. The debits and credits are footed, leaving below the final ruling the balance which will be reflected in the financial statement.

Note the manner of balancing, footing, and ruling the accounts in the petty ledger accompanying the pamphlet on keeping the general books.

Ruling the general ledger nominal accounts.—The nominal accounts which have been closed into loss and gain are footed if there is more than one entry on either side of the account. A double line drawn below the footings indicate that all matter above the line need not be considered further. If there is only one entry on each side of the account merely draw a double line below both figures. In accounts requiring inventory adjustments the *opening* inventory for the next period will appear *below* the ruling.

Ruling the general ledger real accounts.—The real accounts in the general ledger are those which carry a balance representing either an asset or a liability. Each account is closed for the month by entering the balance in *red ink* on the smaller side and carrying such balance down in *black ink* on the opposite side of the account where it will appear below the footing and the double line which should be drawn beneath the footing. These balances appearing in the real accounts constitutes the assets and liabilities with which the exchange begins business on the first day of the next succeeding month.

The manner of bringing down the balances, footing, and ruling the real accounts is exhibited in the model set accompanying this pamphlet.

There is no specific method of ruling accounts. Usually *red ink* is used because it is more conspicuous. It is required by the post exchange regulations. Any method of ruling that clearly indicates that an account is closed will suffice.

Exchange regulations require that financial reports be rendered monthly to the adjutant and inspector. There has been devised a combined report which gives on a single sheet all of the information required by the adjutant and inspector regarding the conduct of each post exchange. This report is to be written up from the books of account, signed by the members of the post exchange council and the commanding officer, and submitted to Marine Corps headquarters immediately after the monthly audit. By signing the report of operations for the post exchange, the council makes itself responsible for its accuracy.

The balance sheet.—This is the only form of financial report issuing from the post exchange. It is composed of several elements which are closely interrelated and great care must be taken to prepare this report in the proper manner.

Trial balance.—The method to be used in preparing a trial balance is outlined on page 67. The trial balance of the general ledger forms the first section of the monthly balance sheet. The names of the accounts ordinarily appearing on the general ledger of a post exchange are listed in the left-hand column. The trial-balance figures are to be entered opposite the name of the account concerned. Substitutions of names may be resorted to in instances where the names provided are inadequate. The trial-balance figures are listed in the money columns, debits on the left and credits on the right. The totals of the two columns are written in the space provided.

Loss and gain.—The figures shown in the trial balance are analyzed and all items indicating losses are extended into the column captioned "Losses." The gains shown in the trial-balance figures are extended into the money column captioned "Gains." Upon examination it should be apparent to the one preparing the balance sheet which debits in the trial balance represent losses and which credits constitute gains. Where there are two figures in the trial balance, both debit and credit, then the balance should be extended into the losses or gains column, as the case may be.

Accounts which require inventory adjustments must be handled in a slightly different manner inasmuch as the credit figure in the trial balance must be increased by the amount of the inventory in order to determine the net gain or loss from that activity.

The amounts appearing opposite the account, loss and gain, in the trial balance are not extended directly into the losses and gains columns. If this were done it would not be apparent to one reading the balance sheet what caused these non-operating losses or gains. In order to show what they consist of a plan of exhibiting them opposite the *name of the account concerned* is in use.

The debit figure in the trial balance here illustrated is composed of three items. They will be found entered opposite the bills receivable, merchandise, and property accounts. The information regarding the nature of this item may be obtained from the cashbook journal by consulting the debit column captioned loss and gain. It will be shown there that a loss on bills receivable of $2.25 occurred because of having to write off the bill due from James M. Clark. The merchandise surveyed amounted to $4.16 so this amount is entered opposite merchandise in the losses column. Property depreciated $14, which was written off as a loss, so as to explain the nature of this loss it is entered opposite property in the losses

column of the balance sheet. By this means the $20.41 appearing in the debit column of the trial balance is included in the losses, and entering the items opposite the account concerned sufficiently explains the nature of the loss.

The credit-balance figure for loss and gain is $157.10, which represents non-operating gains concerning the following accounts: Merchandise, $2.50, and property, $154.60. It will be noted that these two items are placed in the gains column opposite the accounts affected. Information as to the items making up the credit to the loss and gain account can be derived from the credit money column of the cashbook journal captioned loss and gain.

When all of the items representing losses and gains have been extended into the proper columns and the amounts appearing opposite the loss and gain account in the trial balance have been written opposite the account concerned as before explained, the net loss or gain for the business is determined. This is accomplished by totaling the losses and the gains columns and determining the difference between them. The excess of gains over losses constitutes net gain, while an excess of losses over gains indicates net loss.

The figures appearing in the loss and gain column should then be compared with the loss and gain account in the general ledger. It will be seen that the losses column of the balance sheet bears the same information as the debit side of the loss and gain account in the general ledger and that the gains column of the balance sheet corresponds with the credit side of the loss and gain account, with the exception of the nonoperating items which are allocated as before explained.

If a net gain has resulted from operations the amount thereof is written in the losses column of the balance sheet to make the total correspond with the total of the gains. A net loss from operations would be placed in the gains column for the purpose of making both totals agree.

ASSETS AND LIABILITIES

The balance sheet columns provided for assets and liabilities are to be filled in with all items appearing in the trial balance which have not been classified as losses or gains.

Assets.—The assets, which are represented by debit balances, are extended into the assets column. The figures appearing as assets should be the same as those on the debit side of the balance account in the general ledger. Note that the inventories, although not appearing in the trial balance figures, are entered in the asset column.

Liabilities.—The liabilities column of the balance sheet should show the credit balances of liability items in the trial balance. Ordinarily there will be only one item, accounts payable. The present worth of the exchange also appears among the liabilities. The liabilities column should bear the same information as the credit side of the balance account in the general ledger. The totals of the assets and liabilities should be the same.

RECORDING CHANGES IN NET WORTH ON THE BALANCE SHEET

The balance of the exchange account appearing among the trial balance figures is not to be extended into the liabilities column. In the balance sheet presented herewith there is no balance in the exchange account at the beginning of the period, but this only occurs during the first month of operation of an exchange.

The exchange balance is carried down into the section below the trial balance where it is entered as a credit in the money column opposite the designation "exchange balance." The net gain for the month is recorded in the same column, where it is added to the previous balance to arrive at the present worth of the exchange. If the result of operations is a net loss, then the amount thereof is written in the debit column as a deduction from the previous balance. The net credit balance of this section then becomes the new net worth which is extended into the liabilities column. This section of the balance sheet is merely a reproduction of the exchange account in the general ledger, showing the opening balance, the additions or deductions, and the final balance.

RATION STRENGTH

The total ration strength for the period covered by this report is obtained from the post commissary and is required here to furnish the adjutant and inspector with information as to how many men were attached to that post during the month. This is an aid in gaging the sales of the exchange in proportion to the number of men stationed at the post where the exchange operates.

PAYMENTS OF ACCOUNTS PAYABLE

It is customary to pay all bills of the exchange as soon as practicable. A space is provided on the face of the balance sheet to record the date on which the accounts payable will be settled.

Turn to the face of the balance sheet on page 83 and study its construction carefully. Note the manner of entering the trial balance from the general ledger accounts. Trace the extension of the losses, gains, assets, and liabilities to the proper columns. Study particularly the method of showing the changes in net worth and that of entering the net gain and the new net worth.

BACK OF THE BALANCE SHEET

Certain additional information concerning the figures on the face of the balance sheet is desired, and this is to be given on the back of the balance sheet in the spaces provided for that purpose.

Schedule of accounts receivable and payable.—The information for these schedules may be obtained from the petty ledger. The total of accounts receivable should agree with the figure shown on the face of the balance sheet. The complete name, rank, amount owed, and date receivable should be included in the schedule of accounts receivable.

The balances of the accounts payable accounts in the petty ledger should be entered in the schedule of accounts payable. The total credit balances should equal the figure shown on the face of the balance sheet. If there should be any adverse balances in the accounts receivable or accounts payable they would be shown as deductions from the total to arrive at the net balance.

Memorandum of cost price of merchandise affecting credit side of merchandise account.—The credit entry in the merchandise account which was derived from the credit money column of the cashbook journal does not always wholly represent sales of merchandise. In order that the adjutant and inspector may know the exact amount of sales for the period, all credits to merchandise which do not represent sales are to be exhibited in a schedule. The information to be included

on this schedule may be obtained from the credit money column captioned merchandise in the cashbook journal. Sales are ordinarily recorded from the steward's daily report, and a careful scrutiny of each credit to merchandise from other sources will disclose the nature of such credit. The total of this schedule should be shown at the foot of the items.

Profits distributed during the period.—The information for this schedule may be obtained from the amusements column of the cashbook journal. The various ways in which the profits were distributed should be indicated, such as post amusements, Marine Corps athletic fund, cooks and bakers, etc.

Attendants and employees.—A list of the salaries paid to all persons having any connection with the exchange should be given here. This information may be obtained from the pay roll voucher or any other convenient source.

Schedule of cash.—This is the exchange officer's certification that the cash shown on the face of the balance sheet is correct. The amount on hand on the last day of the business period and the balance in the bank are separately shown. The total of the two items should equal the amount shown as cash among the assets.

If there is insufficient space in any of the schedules to record the required information a separate sheet should be prepared and submitted with the balance sheet.

The balance sheet, both front and back, as it would appear bearing the information relative to the month of December, which we have illustrated would appear as follows:

[Face]

Balance sheet

MARINE BARRACKS, NAVY YARD, WASHINGTON, D. C. DECEMBER 31, 1928.

(Exchange)

Accounts	Trial balance		Losses	Gains	Assets	Liabilities
	Dr. footings	Cr. footings				
Amusements	$41.00		$41.00			
Amusement rooms		$53.30		$53.30		
Bills receivable	96.00	2.25	*2.25		$93.75	
Bread	16.76	20.95		4.19		
Cash	1,298.98	542.54			756.44	
Coupons						
†Exchange						
Expense	131.69		131.69			
Interest and discount		6.05		6.05		
Loss and gain	*20.41	*157.10				
Lunch counter	47.86	34.98		4.62	17.50	
Merchandise	861.22	894.48	*4.16	321.20	287.94	
Property	1,160.91	19.90	*14.00	*154.60	1,141.01	
Barber	8.40	18.26		9.86		
Shoemaker						
Tailor		20.00		20.00		
Fountain	71.98	63.40		18.67	27.25	
Accounts payable	491.59	2,456.21				$1,964.62
Accounts receivable	56.45	13.83			42.62	
	4,303.25	4,303.25				
†Exchange balance						
Net gain		401.89	401.89			
Present worth	401.89					401.89
	401.89	401.89	594.99	594.99	2,366.51	2,366.51

Total ration strength for period covered by this report 5,689.

Accounts payable will probably be settled during January, 1929.

To the ADJUTANT AND INSPECTOR,
U. S. Marine Corps, Headquarters,
Washington, D. C.

NOTE.—The amounts posted to the loss and gain account from the other accounts during the period covered will be entered in the columns "Losses" and "Gains" as separate items, opposite the accounts concerned.

[OVER.]

[Back]

Schedule of accounts receivable and payable

Name	Rank	Amount	Date due
Accounts receivable:			
J. J. Brown	Lieut.	$5.95	
Home Fire Insurance Co.		36.67	
		42.62	
Accounts payable:			
American Electric Co.		8.40	
BeVier & Co.		183.25	
Chesapeake & Potomac Telephone Co.		4.75	
Eaton, Crane & Pike Co.		6.75	
Headquarters exchange officer		78.00	
Hoffman Pressing Machine Co.		186.05	
Liggett-Myers Tobacco Co.		300.00	
Marine Corps fund		350.00	
Mavis Bottling Co.		17.50	
National Grocery Co.		47.86	
Post commissary		12.57	
Restaurant Equipment Co.		48.25	
Singer Sewing Machine Co.		129.50	
Ralph Smith (baker)		4.19	
A. G. Spalding & Bros.		261.55	
Underwood Typewriter Co.		65.00	
Velvet Kind Ice Cream Co.		46.00	
Victor Phonograph Co.		215.00	
		1,964.62	
Memorandum of cost price of merchandise affecting credit side of merchandise account:			
Returned to dealer		15.95	
Donated		16.00	
Transferred to expense		2.65	
Transferred to property		15.00	
Transferred to L. & G.		4.16	
Transferred to any other account			
		53.76	

Profits distributed during the period, as follows:

Post amusements	$41.00

Attendants and employees

(Including barber, shoemaker, etc.)

Name	Position	Monthly compensation from exchange
J. G. Gordon	Steward	$25.00
Wm. Collins	Bookkeeper	15.00
Elmer Bennett	Clerk	15.00
		55.00

December 31, 1928.

I certify that there is $630.05 on deposit in the First National Bank of Washington, D. C., this date to the credit of the exchange; and cash on hand amounting to $126.39.

Exchange officer.

We certify that we have counted the cash on hand; examined the check book, bank book, and statement rendered by the bank for the period covered by this audit. We have carefully inventoried the merchandise and have audited the accounts of this exchange as required by existing instructions, and found them to be correct.

Forwarded, approved.

Commanding.

THE BLOTTER

EXCHANGE OFFICER'S BOOKS

In the discussion of the books of account which must be maintained in the post exchange it was stated that some of them were kept by the bookkeeper while others had to be written up in the handwriting of the post exchange officer or his authorized assistant.

The *blotter* and the *steward's account* are the two records which the exchange officer must keep. They are separate and distinct from the general books previously discussed and illustrated. They are related to the general books only in so far as the results serve as a check against the final figures furnished by the general books.

THE BLOTTER

This is the record of cash receipts and expenditures and must be kept by the exchange officer unless he is also the regular bookkeeper, or makes all entries into cashbook journal in his own handwriting. This cash account furnishes the same information as the debit and credit columns of the cashbook journal. All cash received by the exchange is entered together with an appropriate explanation as to the source from which it was derived. Expenditures of cash are listed with an explanation as to the firm or individual to whom paid.

The exchange officer is in sole charge of the cash belonging to the exchange. One reason for having the cash receipts and disbursements separate from the general books is that the balance of cash available for disbursement may be quickly determined at any time the exchange officer desires this information. The amount of cash on hand can always be determined by count, but this does not constitute all the cash, as most of the cash belonging to the exchange is deposited with a bank.

Form of record used.—The form of blotter at present in use in all the post exchanges practically explains itself. Little confusion should result in determining the use to be made of the various columns. The rule of debit and credit which you have learned is applied in this instance, as well as in keeping the general books. Cash received is debited in this account by an entry on the left-hand side of the sheet, while cash paid out is credited and entered on the right-hand side of the sheet.

On the debit side of the sheet in the first column should be written the *dates* of the cash receipts. The next column is to be *checked* by the post exchange council when it has verified the accuracy of the entry on this line. The wide column captioned, "Source," should be filled in with an *explanation* of where the cash came from, such as cash sales, accounts receivable, etc. The *amount* of the cash received is entered in the money column, under the caption "Amount." The last column on the receipts side is provided to receive the check of the adjutant and inspector, when the accounts are audited by that department.

The columns on the expenditures side of the sheet are used for the following purposes:

First column: In this column are entered the dates on which the checks are made out and signed by the post exchange officer, or in case of cash payments, the day on which payment was made.

Second column: The post exchange council checks here when it has verified the correctness of this entry by an examination of the check and voucher representing this disbursement.

Third column: The name of the firm or individual to whom payment was made is written here.

Fourth column: The number of the check given in payment is entered here, or if it is a cash payment this fact should be noted.

Fifth column: In this column is entered the amounts of cash disbursed.

Sixth column: When the adjutant and inspector has verified the propriety of this expenditure upon the occasion of the annual audit, an appropriate check mark will be made in this column.

Running account.—The blotter is known as a running account with cash. This means that the balance of cash on hand and in bank is always shown by the book itself. To accomplish this the previous month's balance is carried forward and to it is added the receipts for the current month. The current expenditures, deducted from the total of the amount of cash at the beginning, plus the receipts since the first of the month, should give the balance of cash at the end of the month.

Sources of entries.—The original business papers form the basis for the entries made in the blotter. The receipts would be posted from the steward's daily report, and from any other evidence indicating cash received. Cash received from sources other than regular sales would be substantiated by memorandums or cash receipts vouchers. The amount of the disbursements should be posted from the actual checks before they are sent out, or from the check stubs remaining in the check book. In case of cash payments a voucher should be prepared, from which entry would be made in the blotter.

Entering canceled and exchanged checks.—Every check drawn must be entered in this account and accounted for. Entry should be made in numerical sequences with suitable explanation of any spoiled checks. The amount of the spoiled check may be left blank, but other information concerning it should be written in the usual form.

Sometimes the exchange will be asked to exchange its check for currency, the party making the request desiring to send the check through the mails or for some other purpose. This transaction should be recorded upon the blotter by debiting cash for the currency received and crediting cash for the check issued. Both entries should be marked "contra" by way of explanation. This makes the cash record check with the bank record and shows the full history of the transaction.

When a check is issued for "change" in lieu of currency, record should be made, debit and credit, the same as if the cash were received from some source and disbursed to an outsider.

Footing blotter and carrying totals forward.—When the entries have filled one side of the sheet both sides are footed on the bottom line and a diagonal line is drawn in red ink through the space on the short side to indicate that no more entries are to be made on that sheet. Usually the disbursements side of the account will be filled first since more entries are required to record the payments than for entering the receipts. The diagonal line, starting at the left top and ending at the right bottom, will then be drawn in the space remaining on the

receipts side. No posting is done from this record as is done in the case of the cashbook journal record of receipts and disbursements affecting personal accounts.

The totals of both the receipts and the disbursements, and not the balance, are carried forward to the first line of the next page, the total receipts on the receipts side and the total disbursements on the disbursements side. These totals should be carried forward in red ink in order that the amount carried over will be readily distinguished from the current entries for receipts and disbursements. The current entries on the second and succeeding pages for each month will be written directly below the red ink figure which was carried forward, and on totaling the amounts care must be exercised to include the figure carried forward. The opening balance of cash for each month will be that shown by the books at the close of the previous month. It is entered as a debit in red ink.

The cash transactions which were outlined in connection with the entries to be made in the cashbook journal are shown here for the purpose of illustrating the method of making the entries in the blotter to record the receipts and disbursements. The cash transactions for the month of December follow:

Dec. 1:	
A loan was made from the Marine Corps fund of	$350. 00
Dec. 4:	
Paid Federal Storage Co., one year's premium on bond for post exchange steward (check No. 1)	15. 00
Dec. 5:	
The steward's daily report showed cash turned over to the exchange officer amounting to	26. 14
Dec. 6:	
Received from steward with daily report, cash totaling	73. 98
Paid Liggett-Meyers Tobacco Co., on merchandise purchased Dec. 4 (check No. 2)	117. 52
Paid Lock-Tight Safe Co., one month's rent on safe (check No. 3)	7. 50
Dec. 8:	
Received cash from steward with daily report amounting to	79. 51
Paid Ward's Fudge Shop for invoice of Dec. 4, less cash discount of $1.34 (check No. 4)	67. 20
Dec. 9:	
Steward's report for to-day showed cash turned over to the exchange officer in the amount of	60. 43
Dec. 10:	
Received from steward with daily report cash totaling	98. 41
Paid Home Fire Insurance Co., one year's premium in advance on insurance policy (check No. 5)	40. 00
Paid drayage to John Doe, on bowling alleys (check No. 6)	4. 96
Dec. 11:	
Steward's daily report showed cash turned over to the exchange officer in the amount of	136. 14

Dec. 12:	
Received with steward's daily report cash amounting to	$143. 96
Paid Remington-Rand (Inc.), for invoice of the 2d. (check No. 7)	75. 00
Paid Pennsylvania R. R. Co., freight on merchandise (check No. 8)	1. 46
Received from Capt. John Lamont, in payment of balance on his account, check for	6. 25
Paid commissary for ice used in the soda fountain (check No. 9)	1. 98
Donated cash to a smoker for enlisted personnel in the amount of (check No. 10)	25. 00
Paid postage on returned merchandise (cash payment)	. 46
Dec. 13:	
The steward's daily report for to-day showed cash turned over to the exchange officer amounting to	131. 90
Sold to Adams Junk Co., empty containers and boxes for	2. 50
Paid Hamilton Hardware Co., for invoices of the 4th., $96.25, and the 8th., $34.29, less cash discount of $2.89 (check No. 11)	127. 65
Purchased an old sewing machine at auction from the Old Furniture Co., which is to be used to trade in on a new one (check No. 12)	5. 90
Dec. 31:	
Received with steward's daily report cash amounting to	187. 94
Paid salaries of attendants as follows:	
J. G. Gordon, steward (check No. 13)	25. 00
Wm. Collins, bookkeeper (check No. 14)	15. 00
Elmer Bennet, clerk, $15 less 75 cents (check No. 15)	14. 25
Received credit from depository interest on bank balance	1. 82

The above cash transactions when properly written up in the blotter will appear as illustrated in the model form here shown.

Marine Barracks_____

Month of December, 1928.

POST EXCHANGE OFFICER'S BLOTTER

CASH RECEIPTS					CASH EXPENDITURES					
Date	✓Coun.	Source	Amount	✓A. & I.	Date	✓Coun.	Name of firm	Check No.	Amount	✓A. & I.
1		Marine Corps fund	$350.00		4		Federal Storage Co	1	$15.00	
5		Cash sales	26.14		6		Liggett-Meyers Tobacco Co	2	117.52	
6		Cash sales	73.98				Lock Tight Safe Co	3	7.50	
8		Cash sales	79.51		8		Ward's Fudge Shop	4	65.86	
9		Cash sales	60.43		10		Home Fire Insurance Co	5	40.00	
10		Cash sales	98.41				John Doe	6	4.96	
11		Cash sales	136.14		12		Remington-Rand, Inc	7	75.00	
12		Cash sales	143.96				Pennsylvania R. R. Co	8	1.46	
		Capt. John Lamont	6.25				Post Commissary	9	1.98	
13		Cash sales	131.90				Donated to Amusements	10	25.00	
		Adams Junk Co	2.50				Postage on Returned Merchandise	Cash	.46	
31		Cash sales	187.94		13		Hamilton Hardware Co	11	127.65	
		Interest on bank balance	1.82				Old Furniture Co	12	5.90	
					31		J. G. Gordon, Salary	13	25.00	
							Wm. Collins, "	14	15.00	
							Elmer Bennet, "	15	14.25	
							Balance:			
							In bank 630.05			
							On hand 126.39		756.44	
			1,298.98						1,298.98	

Balancing the cash.—In balancing and footing the blotter at the end of the month the balance of cash on hand and in the bank should be entered on the credit side in red ink. This balances the account so that the footings will be equal on each side. Note the manner of entering the balance of cash at the end of the month in the model blotter previously shown. One method of ruling is shown, but this may be altered to suit individual tastes. The only object to be accomplished by any form of ruling is to indicate that the account is closed.

The balance of cash would be entered on the receipts side of the first page for the next month and all subsequent receipts added to it.

In the example given here neither side of the account is filled, but in actual practice more than one sheet would be required for all the entries. Note the manner of ruling the sheet so that no entries can be made there later by mistake. This is important because if an error of that nature should be made after the totals were entered and carried forward to another page the misplaced entry or entries would not be included in this total and consequently the balance shown at the end of the month would not be correct. If the page is ruled in red ink through the unfilled blank space there is no danger of ever committing an error of

this nature, as the red ink ruling immediately shows that this is not the right page on which to make the entry. When all the entries have been made in the blotter for the month, the receipts and disbursements should be totaled to determine the balance of cash which should be on hand and in the bank. The total receipts amount to $1,298.98, which, after deducting the expenditures of $542.54, leaves a balance of $756.44.

The cash on hand was counted December 31, and found to be $126.39, represented by the following:

Denomination	Number	Amount
Currency:		
$20	2	$40.00
$10	3	30.00
$2	3	6.00
$1	27	27.00
Specie:		
Half dollars	15	7.50
Quarters	39	9.75
Dimes	42	4.20
Nickels	29	1.45
Cents	49	.49
Total cash on hand per count		126.39

After the exchange officer had added the interest on the bank balance to the amount of cash in the bank as shown by the balance of his check stubs, and deducted the amount of the last check for the month of December, the check stubs showed a balance of $630.05. A comparison with the balance of cash shown by the blotter proved this figure to be correct, since the amount on hand plus the amount in bank amounted to the same as shown by both the general books and the blotter.

Reconciling the bank balance.—Under ideal conditions the balance shown by the bank statement would always be the same as that shown by the exchange officer's blotter—that is, if all cash received were deposited and all payments were made by check. But ideal conditions seldom prevail, and the statement received from the bank will invariably show a larger or smaller balance than that shown by the books. In order to bring the two balances into agreement, the cause of the discrepancy must be ascertained. Accounting for the difference between the two balances is known as reconciling the bank account.

There are several factors which must be taken into consideration in this reconciliation. The first is to discover which of the checks issued by the exchange has not been paid by the bank. This can be accomplished by pasting the canceled checks returned by the bank, at the time it rendered its statement, upon the stubs from which the checks were torn. The bank always returns all checks which have been presented for payment and which have been charged against the account of the depositor. When all paid checks have been pasted upon the check stubs, any stubs to which checks are not pasted will indicate outstanding checks.

Since these outstanding checks have been credited to cash on the exchange books and have not been deducted from the balance shown by the bank's books, it can be seen that the bank balance will be greater than that shown on the

books of the exchange. In order to eliminate this point of difference, the balance shown on the bank statement must be *decreased* by the amount of the unpaid checks.

The cash receipts for the last day of the month, which have not been deposited, but which have been debited to cash on the exchange books, must be *added* to the balance shown by the bank.

In reconciling the cash account the correct procedure is to start with the balance as shown by the bank statement and work forward to arrive at the balance as shown by the exchange books. Any items shown on the exchange books which are not indicated in the bank statement must be added to or deducted from the bank balance, as the case may be. Similarly, any items shown on the bank statement which are not reflected on the exchange books must be considered in effecting the reconcilement.

Assume, for the sake of illustration, that the First National Bank of Washington rendered a statement bearing the following information:

Deposits received from exchange	$1, 170. 77	
Interest credited on balance	1. 82	
		$1, 172. 59
Paid checks 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12		483. 33
Balance per bank statement Dec. 31		689. 26

The reconciliation of this balance with the balance shown by the exchange books would require the following computation:

Bank balance as per bank statement		$689. 26
Deduct the following outstanding checks:		
No. 6	$4. 96	
No. 13	25. 00	
No. 14	15. 00	
No. 15	14. 25	
		59. 21
		630. 05
Add receipts not deposited		126. 39
Balance per exchange books		756. 44

It is important that the bank balance be reconciled promptly at the end of every accounting period. Bank statements are usually correct, as they are proved before mailing. The reconcilement of the bank balance is necessary to prove the correctness of the balance of cash as shown by the exchange books.

In subsequent months the bank-balance reconciliation must take into consideration the outstanding checks at the beginning of the month. If the paid checks returned by the bank at the end of the month included any which were outstanding at the beginning of the month, they should be checked against the previous reconciliation, and any checks not yet presented at the bank must be shown as outstanding again. As a matter of fact, checks may be outstanding for several months before they are finally presented to the bank for payment. In that event they appear in the bank reconcilements month after month until they are paid or otherwise disposed of.

THE STEWARD'S ACCOUNT

The steward's account which the exchange officer keeps must not be confused with the personal account on the petty ledger. The former shows merchandise transactions between the exchange officer and the steward, while the latter merely shows personal transactions between the exchange and the individual.

OBJECT OF STEWARD'S ACCOUNT

The exchange officer is detailed to supervise the operations and conduct of the post exchange. He can not personally make each sale, collect the cash therefor, and keep all merchandise not sold under his hand and eye at all times. It is therefore necessary that he intrust the safe-keeping of the merchandise to assistants, who are authorized to sell it and obtain the money.

The exchange officer must know the value of the merchandise put into the hands of the steward in order that he may know the amount of the steward's liability.

This is accomplished by setting the price at which the steward is to *sell* the merchandise intrusted to his custody. Then the exchange officer merely has to keep a record of the merchandise at selling value that he has turned over to the steward for sale. A debit entry in the steward's account accomplishes this result. When the steward makes sales and remits the proceeds he thereby lessens his liability and is given credit by the exchange officer.

WHEN MERCHANDISE IS RECEIVED AT EXCHANGE

When goods are received at the exchange they must be checked in by the exchange officer or his authorized assistant. His authorized assistant may be the assistant exchange officer or a commissioned officer temporarily detailed for that duty. When it has been determined that all of the merchandise indicated by the invoice has actually been received, the price at which this merchandise is to be sold is computed. We have already explained the method of computing the selling price of each invoice, and in the pamphlet on business papers it was stated that this selling price should be recorded on the face of the invoice. The reason for this statement will now be made clear.

USE OF THE COLUMNS

The form of steward's account is to furnish the information which the exchange officer requires regarding his merchandise transactions with the steward. The date of entry is to be recorded in the column provided for date. A narrow column, in which the post exchange council should *check* each entry when it has been verified at the monthly audit, appears on the right of the date column. The wide column in the center of the page should receive the explanation of the entry. The amounts involved should be entered in the money column, debit or credit as the case may be.

DEBITS TO STEWARD

When an invoice is charged against the steward, the name of the firm from whom the goods were received should be written in the explanation column, and the invoice number should be placed in the narrow column captioned "Invoice No." The selling price of the goods represented by the invoice as shown on the invoice itself is to be entered in the *debit* money column. The amount and the number of the invoice here recorded should be the same as that shown on the steward's daily report for that day. Ordinarily all debits in this account will be made from purchase invoices.

If the price of any of the merchandise should subsequently be increased, then it becomes necessary to charge the steward with such additional value by means of a debit in this account. This condition will very rarely occur, however.

CREDITS TO STEWARD

Any legitimate reductions which the steward makes in the value of merchandise with which he is charged must be credited to his account, in order that the balance of the steward's account will at all times represent his liability for merchandise in his care.

Sales of goods are the usual source of credit. The merchandise is exchanged for cash and such cash is turned over to the exchange officer. In the steward's daily report are shown the various sources of cash receipts, among which appear the receipts from sale of merchandise. This is the figure with which the steward should be credited in his account.

Sales made on account to officers or enlisted men, under the conditions prescribed in article 12–13, Marine Corps Manual, must be shown as deductions from the steward's liability by means of credits in his account.

Merchandise surveyed as unfit for sale are proper credits to the steward at *selling price.*

Expended merchandise is treated similarly and credited to the steward at selling price.

Any reductions in the selling price of goods in the hands of the steward are proper credits to his account.

ENTERING INVENTORIES

At the end of the month when the inventory has been taken the selling value thereof is entered in red ink on the credit side of this account. Theoretically this should balance the account, but it is very seldom that such a condition prevails. The physical inventory at the end of the month will invariably be slightly more or less than that indicated by the balance of the steward's account.

ADJUSTING SHORTAGES AND OVERAGES

If the actual inventory valued at selling price amounts to more than the balance of the account before entering the inventory therein, then there is an overage. *The steward has more goods on hand than he is charged with.*

If it is found that the actual inventory is less than the balance of the steward's account it is apparent that a shortage exists. *The steward does not have on hand the value with which he is charged.*

Overages should be entered on the debit side of the account in red ink to make the total of the debit column equal that of the credit column. Conversely shortages must be written in red ink on the credit side beneath the entry for the inventory to make the totals for the debit and credit columns agree.

DISPOSITION OF OVERAGES AND SHORTAGES

Any shortages or overages existing in the inventory at the end of the month are considered at the meeting of the post-exchange council and their disposition will then be decided upon. It is the common practice to disregard minor differences as it has been found that over a period of months the shortages and overages will practically offset each other. The steward's daily report should be adjusted on the first day of the month next succeeding the inventory date to bring the balance of merchandise shown there into harmony with the physical inventory. Then the balance will agree with that shown by the steward's account since the first entry in the steward's account for each month should be that recording the physical inventory.

INVENTORIES

Before the books can be closed, as has been stated, the amount of the inventory on hand at the end of the accounting period must be determined. Inventories have two general features, *quantity* and *value*. Unless both of these features are properly included in the inventory true results will not be reflected.

A physical inventory involves determination of the quantities on hand by actual count, measurement, or weight of all goods on hand which have been recorded in the books of account, and the specific valuation of each unit. The method of arriving at the inventory has been previously outlined briefly and in this pamphlet some of the irregularities which often occur in inventories will be set forth.

Reasons for difference between inventory-selling price and balance of steward's account.—Before entering upon a discussion of the discrepancies which occur in inventories it might be well to state that shortages or overages may be due to errors or manipulation, the effect of the latter depending upon the motive—whether it is advantageous to the steward or exchange officer to have the inventory short or over. Evidence of a desire in either direction should put the council on guard to give special attention to any means which could be employed by any of the post exchange officials or attendants to govern the inventory value as at a given time. It may be said in this connection that the tendency, if fraud were being practiced, is to overstate rather than understate the inventory.

The physical inventory of merchandise valued at selling price may be *more* than the balance indicated by the steward's account because of one or more of the following conditions:

1. *Merchandise may be included in the stock which was not charged to the steward.* This might be caused by—

(*a*) Failure of the exchange officer to record a purchase invoice.

(*b*) Erroneously entering the amount of a purchase invoice at a figure less than the actual selling price of the goods represented by that invoice.

(*c*) Merchandise arriving on the last day of the period might be included in the inventory although the invoice has not yet arrived and consequently no charge has been made against the steward in his account.

(*d*) Goods held on consignment may not be charged to the steward, yet in taking the inventory some of this consigned merchandise might wrongfully be included in the inventory.

2. *Errors which cause overvalue of inventory.*—(*a*) Choosing wrong unit selling price to be used as a multiplier in computing the inventory figures. If the unit selling price used in the inventory computations is in excess of that used in computing the selling price on the merchandise invoice the result will be an inventory figure greater than it should be.

(*b*) Wrong count of units in stock of the various classifications of merchandise. If the number of units on hand of a given classification is stated in excess of that actually on hand this will result in an erroneously stated inventory.

(*c*) Entering wrong number of units counted on the inventory sheet. If there were 167 pairs of men's shoes counted, and in writing the number on the inventory sheet 176 pairs were recorded instead of the correct amount this would cause an inflation of inventory values.

(*d*) Computing and recording extensions in excess of the correct figure. For instance, 76 units of product with a selling price of $1.50 should give an extension of $114, but if the extension were recorded as $141 instead, this would produce a fictitious inventory value.

(*e*) Counting goods twice and including them in the inventory both times will also lead to a misstated result.

(*f*) Footing the inventory sheets excessively. This might occur through errors in adding the extensions, or through including the totals of a sheet more than once in the grand total of all the inventory sheets.

3. *Other contributory causes of overages.*—(*a*) Cash received from other sources may be recorded on the cash register as merchandise sales. This would produce excessive credits to the steward's account which would bring about a smaller balance at the end of the month than there should be.

(*b*) It may be that extraneous items are included in the inventory, such as equipment and supplies. This, of course, should be avoided.

(*c*) Inconsistently computing selling price of invoice. This might give rise to two or more selling prices being set on one variety of product. For instance, if the selling price of the Palmolive soap on the shelves was $0.06 per unit and a new shipment arrived at the exchange on which the selling price was set at $0.05, there is the possibility that the soap would continue to be sold at the original selling price. This would make the cash receipts representing merchandise sold exceed the price at which that merchandise was charged to the steward. This excess credit to the steward over the amount at which the goods were charged to him will tend to make the balance of the steward's account less than it should properly be.

Under ordinary circumstances shortages in inventory will offset overages which occur. Some of the contributory causes of shortages are suggested here.

1. *Merchandise in stock which has been charged to the steward may not be included in the inventory.* This condition would arise because of one or more of the following irregularities:

(*a*) The classification of merchandise, supplies, and equipment may be in error, thereby causing certain goods to be omitted from the inventory under the impression that they were equipment or supplies.

(*b*) The individuals charged with the responsibility of taking the inventory might overlook some of the stock.

(*c*) Merchandise which has been spoiled or mutilated and thereby becomes unfit for sale might be wrongfully excluded from the inventory. This would materially affect the value placed on the physical inventory, and it can therefore be plainly seen that such damaged goods must be regarded as inventory if they are still charged to the steward at the original selling price. It is the common practice, however, to credit the steward with the selling price of merchandise which has become unfit for sale.

2. *Merchandise may be charged to the steward which never was admitted to stock.* Some of the contributory causes of this condition follow:

(*a*) The exchange officer might charge the steward with the same invoice more than once.

(*b*) The invoice might be debited in the record at a figure in excess of the actual selling price as recorded on the invoice.

(*c*) Merchandise which has been received and charged to the steward may not actually have been turned over to him and therefore it could not be included in the inventory. This condition is unlikely, however, since the steward should show on his daily report only the merchandise which he has actually received.

3. *Merchandise sold or otherwise disposed of for which credit is not given to steward.* This may be due to errors or to other reasons, some of which are given below:

(*a*) Sales may be made which, due to forgetfulness or design on the part of the salesman, may not be recorded. This is a dangerous situation and one which will not frequently occur in exchanges where the personnel is honest and efficient, but it is always a possibility and should be guarded against in the most practicable manner. It can readily be seen that when merchandise is sold for which cash is not turned over to the exchange officer, a reduction in value of the merchandise charged to the steward occurs but no credit representing this reduction is possible in view of the lack of record regarding the sale.

(*b*) Practically the same situation prevails where too much merchandise is given in return for the cash received from the patron. This amounts, in effect, to a reduction in the selling price of the merchandise, but since no credit is recorded in the steward's account for such a reduction a shortage in inventory will be the result of this action.

(*c*) Sales of merchandise might possibly be recorded as receipts from some other source. This would prohibit proper credit to the steward and the result would be that the debit balance of his account would be too large by the amount of such improper recording of sales.

(*d*) Merchandise stolen from stock by patrons or attendants has the same effect on the records as the conditions cited under (*a*) and (*b*). All possible safeguards should be provided as the conditions in the various exchanges dictate.

Practical illustration.—The merchandise transactions between the steward and the post exchange officer which would arise during a month's activities will be

used here to illustrate the correct method of making entries in the steward's account. Note that only merchandise transactions are considered as all other purchases are not chargeable to the steward since they do not represent goods bought for resale.

Please remember that the month's transactions here shown are merely set forth to show the method of entering the various information in the account. As a matter of fact an actual month's transactions of a post exchange would require more charges in the account than are shown here, and it is very unlikely that such a variety of credits would appear. For the purpose of brevity we have omitted entries for several days.

The selling value of the inventory on the 1st day of the month is stated as $589.40.

The transactions affecting the steward's account are assumed to be as follows:

December 4:

Purchased from Hamilton Hardware Co., goods invoiced at $96.25. (Selling price, $105.98; invoice No. 5.)

Purchased on account from the Liggett-Myers Tobacco Co., merchandise invoiced at $417. 52. (Selling price, $459.27.)

Purchased on account from the Ward Fudge Shop, merchandise valued at $67.20. (Selling price, $73.92; invoice No. 8.)

December 5:

The steward's daily report showed cash turned over to the exchange officer amounting to $26.14. This was derived from sales of merchandise.

Goods purchased from A. G. Spalding & Bros., amounted to $57. (Selling price, $62.70; invoice No. 10.)

December 6:

Received from steward with daily report, cash totaling $73.98, derived from merchandise sales.

Cigarettes were donated from stock to be served at Sunday dinner, valued at $18, selling price. (Memo. No. 2.)

December 8:

Received from steward with daily report cash amounting to $79.51, derived from the following sources: Merchandise sales, $74.13; barber, $5.38.

Purchased merchandise from Hamilton Hardware Co., invoiced at $34.29. (Selling price, $37.72; invoice No. 14.)

December 9:

Steward's daily report for to-day showed cash turned over to the exchange officer in the amount of $60.43, derived from the following sources: Merchandise sales, $52.90; barber, $3.14; fountain, $4.39.

December 10:

Received from steward with daily report cash totaling $98.41 from the following sources: Sales of merchandise $64.13; barber, $3.13; fountain, $18.50; amusement rooms, $12.65.

Issued to recruits in training, merchandise valued at $96, selling value. (Memo. No. 4.)

Purchased from Be Vier & Co., merchandise invoiced at $183.25. (Selling price, $201.57; invoice No. 16.)

December 11:

Steward's daily report showed cash turned over to the exchange officer in the amount of $136.14 received from the following sources: Merchandise sale, $98.18; barber, $1.25; fountain, $16.48; amusement rooms, $9.25; lunch counter, $10.98.

Sold to Capt. John Lamont, merchandise on account amounting to $10.50. (Memo. No. 5.)

December 12:

Received with steward's daily report cash amounting to $143.96 which was received from the following sources: Sales of merchandise, $102.18; barber, $1.88; fountain, $10.15; amusement rooms, $11.25; lunch counter, $9.85; bread, $8.65.

Received from Capt. John Lamont, merchandise returned by him in the amount of $4.25. (Memo. No. 7.)

December 13:

The steward's daily report for to-day showed cash turned over to the exchange officer of $131.90 which was derived from the following sources: Merchandise sales, $103.40; barber, $1.72; bread, $7.50; amusement rooms, $8.15; fountain, $5.13; lunch counter, $6.

Charged against the account of Elmer Bennett, exchange clerk, $0.75, selling price of merchandise carelessly destroyed. (Memo. No. 9.)

Merchandise valued at $4.16 cost price, $4.58 selling price, was spoiled when a water pipe bursted, and had to be thrown out. (Memo. No. 12.)

Sold to First Lieut. J. J. Brown, on credit, merchandise in the amount of $5.95. (Memo. No. 13.)

Merchandise in stock was transferred to property. Cost value $15, selling value, $16.50. (Memo. No. 14.)

Returned goods to A. G. Spalding & Bros., because of a defect in material just discovered, $9.45, cost price; $10.40, selling price. (Memo. No. 15.)

Office supplies were taken from stock for use in the exchange. Cost value, $2.65; selling price, $2.92. (Memo. No. 16.)

December 31:

Received with steward's daily report cash amounting to $187.94, derived from: Merchandise sales; $132.48; barber, $1.76; tailor $20; bread, $4.80; amusement rooms, $12; fountain, $8.75; lunch counter, $8.15.

ENTERING TRANSACTIONS IN STEWARD'S ACCOUNT

Study the manner of recording the merchandise charges and credits in the steward's account. Note that all merchandise turned over to the steward for sale is entered in the first column as a debit at selling value, while all reductions in the steward's liability are entered in the second column as credits.

The opening inventory for the month, the closing inventory and any necessary adjustments occasioned by shortages or overages in inventory should be written in *red ink*. The opening inventory is always a debit since the steward is charged

and his liability fixed at this amount. The closing inventory must always be recorded as a credit to reduce the amount of charges made against the steward for which he should have remitted cash, except for such items as constitute legitimate deductions from his liability.

An inventory was taken on December 31 and the total selling value of goods on hand at that date is shown on the accompanying inventory sheet.

It will be noted, of course, that because of the necessity for briefness many inventory sheets have been omitted which would actually appear in the inventory of the average post exchange. However, one sheet of inventory will suffice to illustrate the methods employed to record the physical inventory on the sheets and also in the steward's account at the end of the month.

Note particularly the data which is called for on the inventory sheet. All information should be properly entered, the sheet totaled, and both the cost price and the selling price certified to by at least one commissioned officer of the inventory committee.

The inventory sheets may be written in pencil. Frequently changes are found to be necessary due to errors or oversights in taking and recording the inventory. In cases where erasures are necessary the member of the inventory committee who makes such change should certify to its propriety by initialing the changed figures.

Ordinarily many sheets are required to record the inventory. Each sheet should be totaled individually. Do not carry totals forward to the next succeeding sheet. Errors which occur in one sheet should not affect the totals of the other sheets, since subsequent corrections are more easily made if only one total requires changing.

INVENTORY, RECAPITULATION

A recapitulation sheet should be prepared when all of the individual totals have been compiled. Each inventory sheet should be entered on the recapitulation sheet showing the number of the sheet and the cost and selling value of the merchandise represented thereon. A good form for a recapitulation sheet is as follows:

	Cost value	Selling value
Sheet No. 1	$478.56	$593.42
Sheet No. 2	347.98	486.73
Sheet No. 3	789.40	897.75
	1,615.94	1,977.90

The above should be certified to by the members of the inventory committee. Certification may consist of some form of the following:

> "We hereby certify that the inventory figures above shown are correct, that all of the merchandise belonging to the exchange is included, and that no merchandise, the title of which has not been vested in the exchange, is included in the above totals. The merchandise was physically inspected, and the quantities, unit cost, and selling prices are correctly set forth."
>
> JOHN JONES, *Captain, U. S. M. C.*
> RICHARD ROE, *Captain, U. S. M. C.*
> JOHN DOE. *1st Lieut., U. S. M. C.*

FORM I Page No. 1.

INVENTORY, EXCHANGE, MARINE BARRACKS, _____

Date, December 31, 1928 Department _____

Counted by _____ Checked by _____
Entered by _____ Checked by _____
Priced by _____ Checked by _____
Extended by _____ Checked by _____
Totaled by _____ Checked by _____

Quantity	Article	Unit cost price	Total cost value	Unit selling price	Total selling value	Remarks
2	Paper, English vellum	$0.50	$1.00	$0.55	$1.10	
15	Envelopes, Lotus	.06	.90	.10	1.50	
25	Powder, Mavis	.20	5.00	.25	6.25	
11	Skin, balm, Mennen	.31	3.41	.35	3.85	
5	Water, toilet, Williams	.50	2.50	.55	2.75	
36	Dental cream, Forhan's, small	.217	7.81	.25	9.00	
116	Gillette razor blades	.325	37.70	.35	40.60	
42	Dyanshine	.313	13.15	.35	14.70	
35	Towels	.54	18.90	.60	21.00	
7	Belts, U. S. M. C	1.50	10.50	2.00	14.00	
9	Gloves, Meyer's, buck	2.75	24.75	3.00	27.00	
75	Brush, tooth, Prophylactic	.31	23.25	.35	26.25	
36	Cards, bicycle	.375	13.50	.40	14.40	
7	Pens, John Holland	5.25	36.75	5.50	38.50	
3	Puttees, officers'	9.00	27.00	9.50	28.50	
3	Belts, Sam Browne, with slings	15.00	45.00	16.00	48.00	
319	Candy, small bars	.031	9.89	.05	15.95	
568	Cigarettes, Camel	.108	61.34	.12	68.16	
585	Cigarettes, Chesterfield	.108	63.18	.12	70.20	
688	Cigarettes, Piedmont, large	.108	74.30	.12	82.56	
6	Rings, Marine Corps emblem	1.333	8.00	1.75	10.50	
2	Trunks, wardrobe, No. 915	32.50	65.00	35.75	71.50	
1	Suit case, No. 311	23.00	23.00	28.00	28.00	
4	Bay rum, small	.167	.67	.20	.80	
	Total cost $576.50 Total selling price 645.07 Certified correct. JOHN JONES, 1st Lieut. U. S. M. C		576.50		645.07	

CLOSING THE STEWARD'S ACCOUNT

The selling value of the inventory, $645.07, when entered as a credit in the steward's account causes the total credits to exceed the total debits by $1.38. This indicates that there is an overage in inventory. This overage is entered in red ink in the debit money column and the account is balanced by recording the column totals at the bottom of each column. Both totals must, of course, be the same. If a shortage occurred instead of an overage the red ink balancing figure would be written in the credit money column.

The inventory of $645.07 will be the first entry in the succeeding months' steward's account. It is entered there in red ink.

MORALE AND ORGANIZATION FUNDS

In nearly every post where an exchange is located some form of subsidiary fund is maintained. It may consist of funds transferred from the post exchange or of other moneys.

The principle previously illustrated in keeping the exchange officer's blotter should be utilized in accounting for morale or other funds. A single-entry cashbook is all that is required. Cash received is debited in the left-hand money column of the book and cash disbursed is entered in the right-hand money column as a credit.

All receipts should be substantiated by a cash receipt voucher signed by the officer in charge of the fund. A good plan is to provide a separate folder for cash receipt vouchers, in which they would be filed in numerical sequence. The number of the voucher should be entered in the cashbook to make easy future reference to the original business paper.

Payments from the fund should be made only upon proper authorization. In most cases the officer will be authorized to disburse amounts not exceeding a certain figure while all abnormal disbursements must be specifically authorized either by the commanding officer or a council of officers appointed by the commanding officer for that purpose. Where special authorization is given for exceptional payments this written authorization should be attached to the cash disbursement voucher.

All payments made from the fund should be supported by proper vouchers. The best plan is to use some form of the check voucher illustrated and explained in the pamphlet on business papers. If this is not practicable receipted invoices in support of all disbursements should be obtained. Whatever form of cash disbursement voucher is employed they should be filed in a separate folder in numerical order and the number entered in the cashbook opposite the name of the firm or individual to whom payment was made.

At least once each month and oftener if necessary the fund should be balanced and reconciled with the bank account as outlined in the pamphlet on the blotter.

All payments should be made by check if at all practicable and all receipts should be deposited in a bank. The check book should be written up with the information on the stubs as outlined in the business papers pamphlet.

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